

OPTICAL COMMUNICATION PRODUCTS, INC.



2001 ANNUAL REPORT

To Our Stockholders,

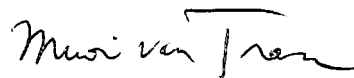
Optical Communication Products, Inc. had a good 2001 fiscal year, which ended in September 2001. Despite the general market downturn in the telecommunications industry, we achieved good revenue and earnings results for the 2001 fiscal year. Revenue for fiscal 2001 increased 41.4% to \$144.0 million from \$101.9 million for fiscal 2000. Net income for fiscal 2001 increased 5.0% to \$26.4 million from \$25.2 million for fiscal 2000.

However, in the last two quarters of our 2001 fiscal year, we saw softness in our customer orders as a result of the slowdown in the telecommunications industry. This reduced demand was due to reduced capital spending by service providers as well as high existing inventory levels of some of our customers. Accordingly, our revenue in the third and fourth quarters of fiscal 2001 were sequentially reduced. In response to these changing market conditions, we have aggressively implemented cost cutting measures so that we can achieve the best possible results in this difficult environment.

Despite the challenging market conditions, we are positioning ourselves to take advantage of the opportunities when the market recovers by investing in our business and developing new products to serve our customers' next-generation systems. We believe that these efforts and our strong balance sheet will strengthen our market position as the economic climate improves.

Our accomplishments over the past year would not have been possible without the support and dedication of all our employees, directors, advisors, partners, customers and stockholders. As we embark on the new year, we are enthusiastic about the prospects ahead. We believe that in the long run, the demand for our products which focus in the metropolitan area and high-speed premise networks remains strong. Our goal is to be well positioned to take advantage of the opportunities when the market recovers.

Sincerely,

A handwritten signature in dark ink, appearing to read "Muoi Van Tran". The signature is fluid and cursive, with a horizontal line above the name.

Muoi Van Tran
Chairman and CEO

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTIONS 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 30, 2001

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 000-31861

OPTICAL COMMUNICATION PRODUCTS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction
of Incorporation or Organization)

95-4344224
(I.R.S. Employer
Identification No.)

20961 Knapp Street
Chatsworth, California 91311
(Address of principal executive offices, including zip code)

Registrant's Telephone Number, Including Area Code: (818) 701-0164

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.001 par value	The Nasdaq National Market

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by a check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation SK is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10K or any amendment to this Form 10K. ☐

As of December 5, 2001, the approximate aggregate market value of voting stock held by non-affiliates of the registrant was \$62,947,715 (based upon the last closing price for shares of the Registrant's Common Stock as reported by The National Market System of the National Association of Securities Dealers Automated Quotation System as of that date). Shares of Common Stock held by each officer, director, and holder of 5% or more of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of December 5, 2001, there were approximately 42,038,300 shares of Class A Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required in Part III hereto is incorporated by reference to the Proxy Statement for the Registrant's 2002 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Form 10-K.

OPTICAL COMMUNICATION PRODUCTS, INC.

FORM 10K ANNUAL REPORT

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This Annual Report on Form 10-K, including information incorporated herein by reference, contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements relate to expectations concerning matters that are not historical facts. Words such as "projects," "believes," "anticipates," "will," "estimate," "plans," "expects," "intends," and similar words and expressions are intended to identify forward-looking statements. Although we believe that such forward-looking statements are reasonable, we cannot assure you that such expectations will prove to be correct. Important language regarding factors which could cause actual results to differ materially from such expectations are disclosed in this Report, including without limitation under the caption "Risk Factors" beginning on page 13 of this Report, and the other documents we file with the Securities and Exchange Commission ("SEC"), including our most recent reports on Form 8-K and Form 10-K, and amendments thereto. All forward-looking statements attributable to Optical Communication Products are expressly qualified in their entirety by such language. We do not undertake any obligation to update any forward-looking statements.

PART I.

ITEM 1. BUSINESS

We design, manufacture and sell a comprehensive line of high performance, highly reliable fiber optic subsystems and modules for the metropolitan area and high-speed premises markets. Subsystems and modules are preassembled components that are used to build network equipment. Our subsystems and modules are integrated into systems which address the bandwidth limitations in metropolitan area networks and high-speed premises networks. Metropolitan area networks are communication networks in cities and urban areas that connect telephone exchanges, Internet service providers, businesses and consumers. High-speed premises networks are communication networks that connect buildings within a business or campus setting. Our subsystems and modules include optical transmitters, receivers, transceivers and transponders that convert electronic signals into optical signals and back to electronic signals, enabling high-speed communication of voice and data traffic over public and private fiber optic networks. Our products support a wide range of network applications, transmission speeds, distances and standards, including international transmission standards.

The Company was founded in October 1991 with initial funding from The Furukawa Electric Company, Ltd. of Japan ("Furukawa"). We offer a comprehensive line of high performance, cost-effective solutions to our customers supported by volume production capabilities. We believe that our close working relationship with leading fiber optic communication equipment manufacturers allows us to quickly design and build advanced fiber optic subsystems and modules, enabling our customers to focus on their core competencies in designing and building overall systems. Our customers include communication equipment manufacturers, such as Acterna Corporation, Alcatel, CIENA, Cisco Systems, ECI Telecom, Lucent Technologies, Marconi Communications, Nortel Networks, Redback Networks and Unisphere Networks some of whom purchase through contract manufacturers such as Celestica, Flextronics, Jabil Circuits, Sanmina, SCI Systems, and Soletron.

Industry Background

Increased network traffic

During the past several years, the amount of voice and data transmitted over communication networks has increased significantly. This growth is primarily attributed to the rapid growth and popularity of data intensive applications, such as Internet access, real-time data backup, e-mail, video conferencing, multimedia file transfers and the movement of large blocks of stored data across networks. To meet this demand, communication service providers have upgraded their communication networks to expand capacity, which greatly reduced transmission costs per bit. This cost reduction has, in turn, further increased the demand for and usage of communication networks. This cycle, increased demand fueling increased capacity at reduced costs and increasing demand further, has enabled the prolonged dramatic growth in voice and data traffic across networks.

Evolution of network infrastructure

Communication networks were originally designed to handle voice traffic. The infrastructure of existing prior generation, or legacy, networks consists of copper cabling along which voice communications are transmitted in the form of electronic signals. While copper cabling is generally a reliable transmission medium, its ability to transmit large volumes of data at high speed is limited, and it is prone to electromagnetic interference, or EMI, from nearby electronic equipment and other sources. EMI interferes with the transmission of a signal and degrades signal quality.

To overcome the limitations of the legacy copper cable infrastructure and meet increasing demand for high capacity and high-speed voice and data transmission, communication service providers have adopted fiber optic technology in their networks. Fiber optic technology involves the transmission of data in optical fiber via digital pulses of light, which allows for greater bandwidth over longer distances than copper cable and higher quality transmissions that are not subject to EMI.

Widespread deployment of fiber optic technology initially occurred in the long-haul network. Long-haul networks connect the communications networks of metropolitan areas around the world and facilitate the transport of large amounts of voice and data traffic over long distances, up to thousands of miles. Companies designing equipment for this segment have typically focused on providing as much bandwidth as possible between any two locations. The long-haul market was the first to face increasing network congestion as data, aggregated from expanding metropolitan area and local area networks, began to overload long-haul networks. Long-haul network managers, focused on maintaining network performance, were the first to adopt advanced subsystems and modules to increase the capacity of existing fiber. Long-haul network managers have typically been concerned more about network performance than transmission equipment cost. That is because the cost of increasing the capacity of long-haul networks through adding fiber is expensive relative to upgrading the transmission equipment to higher data transmission rates.

The build-out of optical long-haul networks through the adoption of advanced subsystems and modules to increase capacity represents an important step in improving network infrastructure to support increased demand for new services and greater traffic volumes. While optical fiber continues to be deployed, and its transmission capacity expanded in long-haul networks, fiber optic technologies are increasingly being adopted to support high data rate connections to connect end-users to the long-haul networks. These high data rate connections consist of three segments: metro core, metro access and premises.

Metropolitan area networks

Metro core networks—Metro core networks are the distribution points between long-haul networks and metro access networks. In a typical system, a long-haul network connects to a city-wide metropolitan area network through which long-haul data is aggregated by network managers, such as Internet service providers, and distributed to local users via an access network. Metro core networks enable enterprises and communication providers to interconnect network systems over areas from as small as a city block or corporate campus to a wider geographic area.

Metro access networks—Metro access networks connect business and residential end-users to metro core networks. These end-users have increasingly demanded high-speed connections to take advantage of new data-intensive computer and multimedia applications and to keep up with higher speed local area networks that feed into access networks. Access networks traditionally have used relatively slow copper cable based connections. A number of high-speed transmission technologies have been developed to improve the speed of access networks, including digital technologies such as digital subscriber line, or DSL, integrated services digital network, or ISDN, and cable modem technologies. DSL and ISDN technologies utilize the legacy copper-based infrastructure to provide users with increased bandwidth at low cost. Cable modems, which connect computers to local cable TV lines, also provide users with access to high bandwidth at low cost. As these high data rates and new services become more widely available to end-users, legacy copper cable connections are expected to become increasingly insufficient to meet demand. Consequently, communication service providers are beginning to

deploy fiber optic cable directly to end-users or to neighborhood distribution points, enabling the business or residential end-user to obtain a wide range of current and future services.

Premises Networks

Premises networks consist of local area networks and storage area networks. Local area networks connect users within a building or groups of buildings. Storage area networks connect computers and data storage sites within buildings or groups of buildings. Premises networks were originally developed as copper cable networks using standards such as Ethernet and Fast Ethernet. As performance requirements increased, these networks have been upgraded to multimode fiber, an early generation fiber optic technology. As the performance required of these networks increases further, they are being upgraded to even higher performing single mode fiber optics supporting high-speed networking standards such as Fibre Channel, Gigabit Ethernet and 10 Gigabit Ethernet.

Market Opportunity

With the substantial and increasing volumes of voice and data being transmitted across long-haul and premises networks, metropolitan area networks are often the limiting factor in overall network performance. Premises networks are also increasingly requiring greater bandwidth and performance capabilities to address congestion caused by increased voice and data traffic and number of end-users. As a result, network managers have been upgrading their premises networks to higher speeds using optical transmission technologies and high-speed networking standards such as Gigabit Ethernet and Fibre Channel.

As demand for bandwidth grows, communication service providers will require increasingly sophisticated systems for metropolitan area networks and high-speed premises networks. These systems must meet the unique requirements of the metropolitan area networks and high-speed premises networks, such as cost-effectiveness and reliability in harsh environmental conditions. Historically, metropolitan area network infrastructure has been supplied by large vertically integrated fiber optic communication equipment manufacturers, which manufactured their own fiber optic components such as lasers and photodiodes. The demand for new fiber optic networks has led to the expansion of production by existing fiber optic communication equipment manufacturers, as well as the creation of new companies offering cost-effective fiber optic systems. These new companies are typically not vertically integrated and do not employ system design teams to create mixed analog/digital circuits required for laser and photodiode interfaces.

The market demands on fiber optic communication equipment manufacturers to produce networking systems for metropolitan area and high-speed premises networks have given rise to a number of significant technical challenges, including the following:

- Providing solutions which balance performance and cost. The metropolitan market requires optical subsystems and modules which are designed specifically to meet the unique performance and cost requirements of this market.
- Providing long distance operation in metropolitan area networks where interconnection distances can range from a few kilometers up to 80 kilometers. Systems that are unable to transmit over long distances require expensive repeaters to boost and regenerate signals.
- Providing wide operating temperature range in metropolitan area networks where equipment is located in remote locations with no environmental control. Products that operate from -40 degrees Celsius to 85 degrees Celsius are a necessity in this market. This is in contrast to the long-haul network and local area networks where equipment is sited within temperature controlled buildings.
- Delivering products that address the demand for increasingly smaller packages to provide higher port density requires greater component miniaturization expertise.
- Supporting a wide range of data rates, transmission distance requirements, network standards, optical interfaces and packaging options requires that fiber optic communication equipment manufacturers offer a broad range of products.

- ⊙ Producing increasingly integrated products requires cross disciplinary expertise in optics, circuit design, packaging and microwave and radio frequency engineering.
- ⊙ Responding to demands for shorter lead times requires manufacturers to design products and scale production rapidly.
- ⊙ Producing systems to handle increasingly higher data rates in compliance with Federal Communications Commission standards for EMI emissions requires advanced fiber optic subsystem and module design.

Current Industry Environment

During the fiscal year ended September 30, 2001, the telecommunications sector, and in particular the fiber optic networking sector, suffered a severe downturn. System providers are scaling back on deployment and have dramatically slowed their purchases of systems from equipment manufacturers. As a result, equipment manufacturers have also slowed purchases of components and modules from our competitors and from us. Moreover, as equipment manufacturers' sales declined, they have relied on their excess component inventories to meet reduced demand and have moved to reduce their overall component and module inventory levels. Consequently, the slowdown continues to have a negative impact on our business as we face declining sales as the result of our customers' declining business and the resulting adjustment to their inventory levels. See "Business—Risk Factors—Unfavorable current economic and market conditions have resulted in decreased sales and increased difficulty predicting our future operating results." and "—General economic factors could negatively impact our growth plan."

However, despite the slowdown in the industry, we believe that the future market for optical components remains very promising. We believe that Internet traffic, an important driver of fiber optic network expansion, will continue to grow in future years with an increasingly large portion of this traffic expected to include the transfer of data intensive applications requiring expanded network capacity and transmission speed, such as full motion video, multi-channel high quality audio, video conferencing, and movement of large blocks of stored data across networks. With the rapid build-out of the long-haul network in recent years, network congestion and limitations in overall network performance remain primarily at the metropolitan area network and high-speed premises network levels. We believe that once the industry recovers from its current downturn, communication service providers and equipment manufacturers will focus on relieving the bottleneck at the metropolitan area network and high-speed premises network levels. Accordingly, we believe that specific sectors in the industry, such as the metropolitan area networks and high-speed premises networks, will experience particularly strong growth when the industry recovers. However, given our current lack of visibility, we cannot provide any assurance as to the timing or extent of any industry recovery or as to any increase in business or other benefits that we may receive as a result thereof.

Our Solution

We design, manufacture and sell a comprehensive line of high performance, reliable fiber optic subsystems and modules that are used in fiber optic transmission systems. Our subsystems and modules are integrated into systems which address the bandwidth limitations in metropolitan area networks and high-speed premises networks. We provide fiber optic communication equipment manufacturers with high performance, reliable, integrated subsystems and modules designed for the specific requirements of the metropolitan and high-speed premises network markets, allowing fiber optic communication equipment manufacturers to focus on their core competencies of designing and building overall systems.

We provide our customers with the following key benefits:

- ⊙ *High-performance, high reliability, cost-effective products*—Our portfolio of high performance subsystems and modules enables fiber optic metropolitan area networks and high-speed premises networks to operate at high data transmission rates, transmit signals over a variety of distances up to 80 km and operate in wide temperature ranges of between -40 degrees Celsius to 85 degrees Celsius.

Our products are engineered using advanced packaging technologies and feature low levels of radiated electromagnetic interference. Our products are qualified under requirements established by Telcordia (Bellcore), an engineering and administrative services consortium that establishes industry standards and specifications for the telecommunications, wireless and fiber optic industries. The Telcordia requirements relate to the environmental, electrical and optical testing for fiber optic transmitters and receivers, to ensure that they offer the high reliability required for critical applications. Our products are engineered to meet the specific distance, temperature and other performance requirements of the metropolitan area and high-speed premises market.

- *Comprehensive product line*—Our comprehensive fiber optic product line provides fiber optic communication equipment manufacturers with a broad range of solutions for metropolitan area and high-speed premises networks. Our subsystems and modules are available with all the common fiber optic interfaces, and are available in a wide variety of package styles. They support a wide range of data rates, standards, wavelengths and transmission distances.
- *Innovative design capabilities*—We believe that our expertise in high-speed electronic circuit design and packaging of fiber optic devices, enhanced by our close working relationships with customers, enables us to provide innovative subsystems and modules for the metropolitan area and high-speed premises networks. Our engineers work closely with Furukawa and other suppliers to combine advanced semiconductor lasers and custom fiber optic packaging techniques. We also have expertise in designing the complex transmitter circuitry that converts a digital logic signal into the proper signal for the laser or light emitting diode. We design and manufacture our own fiber optic receiver subassemblies using our proprietary automated processes. As a result of our fiber optic device design expertise and our close customer relationships, we are able to quickly adapt our products to respond to new standards and our customers' requirements for subsystems and modules.
- *Reduced time to market*—Our subsystems and modules allow fiber optic communication equipment manufacturers to design and assemble fiber optic interfaces as easily as standard electronic components by eliminating the need for complex setup of individual lasers or receivers. By designing our products closely with our customers, our product designs allow our customers to shorten their design cycle times which allows them to develop and bring new products to market quickly.
- *Scalable manufacturing capabilities*—Our broad portfolio of products use modular designs which enable us to rapidly configure and manufacture subsystems and modules to meet each customers specifications and to rapidly scale our production to deliver these products in volume. We can easily customize our products for example by implementing different electrical connections, or pin configurations, voltages and package sizes as requested by our customers, without impairing the functionality of our products.

Products

We offer a comprehensive line of high-performance fiber optic subsystems and modules, including fiber optic transmitters, receivers, transceivers and transponders, primarily for use in metropolitan area networks and high-speed premises networks. Fiber optic subsystems and modules are preassembled components that are used to build network equipment. Our products convert electronic signals into optical signals and back into electronic signals, thereby facilitating the transmission of information over fiber optic communication networks.

Our fiber optic products integrate advanced optical devices with mixed analog/digital integrated circuits. These circuits allow continuously varying signals and digital data to be designed in the same circuit rather than separate circuits. Our products provide subsystem/module functionality over a wide variety of connectivity speeds, distances, standards and operating temperature ranges.

Our products are engineered with varying levels of integration to suit our customers. The lowest level of integration involves separate transmitter and receiver modules, which provides our customers the greatest flexibility in product design by allowing them to place the transmitters and the receivers according to their design

specifications. We believe our products' technical specifications meet or exceed industry standards for fiber optic subsystems and modules. Transceivers offer the next highest level of integration by placing both the transmitter and receiver in the same package with a dual fiber or connector interface. Transponders provide the highest level of integration by combining the functionality of a transceiver with the addition of multiplexer and demultiplexer circuits in the same package.

Current products

Transmitters and Receivers—Transmitters convert an electronic digital input signal into an optical output signal for transmission over a fiber optic network. Receivers detect optical signals from a fiber optic network and convert them into an electronic signal in standard digital/logic format for further signal processing. We offer separate transmitter and receiver modules that provide our customers with the greatest flexibility in product design by allowing them to place transmitters and receivers separately according to design specifications.

Our optical transmitter and receiver products support the SONET/SDH, Fast Ethernet, Gigabit Ethernet and Fibre Channel transmission standards and are offered in a wide range of data rates, transmission distances and packaging options.

DWDM Transmitter—Dense wavelength division multiplexing, or DWDM, transmitters allow the mixing of optical signals using different standards such as SONET/SDH, asynchronous transfer mode, or ATM, and Gigabit Ethernet, by utilizing different wavelengths. Our DWDM transmitters are available in a compact, low-profile 24-pin package along with two supply voltage options and will operate in the temperature range of -20°C to $+70^{\circ}\text{C}$. Also, the transmitters are provided with additional functions such as disable inputs, LD degradation alarm, and wavelength deviation alarm signals.

Transceivers—Optical transceivers are products that contain both a transmitter and a receiver in a single device and serve as high data rate interconnects between network devices, such as hubs, switches, servers and storage elements. Our optical transceivers are available in a wide variety of fiber optic interfaces, or form factors, and support a wide range of data rates, wavelengths, modes and transmission distances. Our transceivers support the SONET/SDH, Fast Ethernet, Gigabit Ethernet and Fibre Channel transmission standards.

CWDM Transceivers—Coarse wavelength division multiplexing, or CWDM, transceivers allow the mixing of optical signals by utilizing different wavelengths. The CWDM transceivers uses lasers with a wide channel wavelength spacing, typically 20 nm, which allows the equipment to achieve a lower overall system cost. This lower cost is the result of a lower transmitter cost since no temperature and wavelength control is needed, as well as a lower optical MUX/DMUX cost due to wider tolerance on the wavelength stability and bandwidth.

Our CWDM transceivers are available in all the common industry standard transceiver footprints of 1x9, 2x9, GBIC and SFF, and provide four wavelength channels at nominally 1510 nm, 1530 nm, 1550 nm and 1570 nm. They are available in a multi-rate format which allows operation at all speeds from 100 Mbd Ethernet up to Gigabit Ethernet.

SFP Transceivers—Small form-factor pluggable, or SFP, transceivers are "hot-pluggable" optical transceivers which can be removed or inserted into the equipment without turning off the power of the system. This feature allow our customers to readily reconfigured their systems without interrupting their network services, thereby, eliminating system downtime during upgrades and maintenance.

Our SFP transceiver is available in a variety of distances and speeds and uses the popular small form factor LC fiber optic connector interface, allowing fiber optic equipment makers to increase their port density. They are also offered in speeds from 155 Mbd up to 1250 Mbd including multimode LED and 850nm VCSEL as well as singlemode 1310 and 1550 nm lasers.

Transponders—Our optical transponders combine the functionality of a transceiver with integrated circuits for electronic multiplexing and demultiplexing in the same package. We have provided samples of these products

to customers for initial testing. Multiplexers are paired with transmitters and allow the system designer to combine multiple low-speed electronic data streams onto a single optical wavelength, while demultiplexers and receivers reverse this process. The transmitter portion of the transponder accepts sixteen 155 Mb/s electronic signals, multiplexes them together and provides at the output a single 2,488 Mb/s optical signal. The receiver portion of the transponder performs the reverse function, namely accepting a single optical signal and providing back sixteen 155 Mb/s electronic signals. The advantage of this product is the compact overall design that minimizes the equipment size and the low speed electronic interface that simplifies our customers printed circuit design. As equipment speeds increase, this type of product is becoming widely used.

Products under development

Our product development efforts have, and will continue to be, focused on developing new products and technologies to support increased transmission speeds, distances and capacities. We have been developing products to support future generations of fiber optic metropolitan area and high-speed premises networks by utilizing coarse wavelength division multiplexing, or CWDM, dense wavelength division multiplexing, or DWDM, and 10 Gbp/s transmission standards.

Multiplexers are integrated circuits that combine signals from many inputs into a single output, and demultiplexers are integrated circuits that accomplish the reverse, or create many outputs from a single input. Wavelength division multiplexing is a technology which allows multiple signals to be sent along the same optical fiber by using different colors of light for each signal.

We plan to introduce multi-channel optical transmitters, receivers and transceivers using both DWDM and CWDM technologies. These are being designed to allow the mixing of optical signals using different standards, such as SONET/SDH, asynchronous transfer mode, or ATM and Gigabit Ethernet, by utilizing different wavelengths. We also plan to develop a series of pluggable transceivers for applications in the different standards.

We believe that some of our competitors are developing similar products to those that we have under development. While we are currently developing products in all of the areas described above, we may choose to prioritize or redirect our development efforts in response to market demands. Therefore, it is not certain that we will introduce products for all of the categories listed above.

Customers

We sell our products to fiber optic communication equipment manufacturers directly and through contract manufacturers who incorporate them into systems they assemble for fiber optic communication equipment manufacturers. Contract manufacturers assemble specific products for fiber optic communication equipment manufacturers. We define our customers as fiber optic communication equipment manufacturers who have purchased our products directly or ordered our products for incorporation into systems produced by contract manufacturers, such as Celestica, Flextronics, Jabil Circuits, Sanmina, SCI Systems, and Soletron. Fiber optic communication equipment manufacturers make the purchasing decisions on substantially all of the products we sell through contract manufacturers. We typically do not enter into long-term contracts with our customers.

A small number of customers have historically accounted for a significant portion of our total revenue. For the fiscal year ended September 30, 2001, our 10 largest customers accounted for 74.2% of our total revenue, with Alcatel and Cisco Systems (including sales to each of their contract manufacturers) accounting for approximately 20.9% and 19.8% of our total revenue, respectively. No other customer accounted for more than 10.0% of our revenue during the fiscal year ended September 30, 2001.

For financial reporting purposes, we consider our customers to be the contract manufacturers and fiber optic communications equipment manufacturers who place purchase orders with us or otherwise purchase our products directly. For the fiscal year ended September 30, 2001, revenue from our two largest direct sales customers, Cisco Systems and Alcatel USA Sourcing L.P., accounted for 12.7% and 10.5%, respectively, of our total revenue. No

other direct sales customer accounted for more than 10% of our total revenue. See "Business—Risk Factors—We derive a significant portion of our total revenue from a few significant customers, and our total revenue may decline significantly if any of these customers cancels, reduces or delays purchases of our products or extracts price concessions from us."

Technology

The development and manufacture of high-performance fiber optic subsystems and modules for metropolitan area networks and high-speed premises networks require diverse technical skills and expertise. We believe that our understanding of fundamental optical devices, their packaging and high speed circuit design allows us to extend the performance of low cost packaging and technology, which we originally designed for smaller local area networks, to provide the high-performance required for fiber optic metropolitan area networks and high-speed premises networks. Key elements of our technological capabilities include:

- *Optical device technology*—We understand the performance requirements for optical devices in fiber optic systems. There is a wide range of optical source and detector technologies available, and these must be optimized for each application. We have design expertise with six different types of light sources used to send light along a fiber, and three different types of detector technologies. Each of these devices has performance characteristics which must be carefully chosen to meet specific system requirements
- *Optical packaging/subassembly design*—We work closely with Furukawa and other suppliers to combine advanced semiconductor laser designs and custom optical packaging techniques to produce advanced optical subassemblies. Less than one micron tolerances, or variability in the alignment of components, are required in these laser packages and reliability specifications require us to hold these mechanical tolerances over a wide range of temperatures and the specified life of our products. A micron is one thousandth of a millimeter. We believe these designs and technologies improve the performance of our products as well as enhance yields and reduce material costs. We also design our receiver packages for automated assembly, and we design and manufacture our own optical subassemblies for our receivers. This allows us to provide design flexibility, high-performance and the ability to manufacture in volume.
- *Links with Furukawa*—We have worked closely with Furukawa to develop new optical devices for our products using technology that they have developed. Furukawa supplies us with the majority of the optical devices, such as lasers, needed for some of the optical subassemblies used in our products.
- *Electronic circuit design*—We have the expertise to design complex transmitter circuitry that converts a digital logic signal into the proper signal for the laser or light emitting diode. This circuit has compensation and feedback control loops which change the current to maintain constant optical power output. This electronic signal must also be modulated and the waveform of the modulation must be carefully controlled to ensure that the optical output meets the fiber optic communications equipment manufacturer's defined specifications. We also have considerable expertise in designing receivers to minimize the effects of external noise that can significantly affect the performance of a receiver. Our products operate at speeds up to 2.5 Gb/s and we are working to develop future products to work at 10 Gb/s. At these speeds, microwave and radio frequency design techniques must be used to ensure that the waveforms do not degrade and meet the parameters defined in standards. We believe our technical competencies in these areas enable us to produce fiber optic subsystems and modules with low electromagnetic interference emission levels.
- *Fast product development cycle time*—Our products are designed using a building block approach that allows us to combine different subassemblies in different ways to provide a wide range of products. Our integrated subassemblies allow us to quickly adapt our products to respond to new standards and our customers' requirements for special subsystems and modules. This ability, in combination with our market knowledge, allows us to select the commercial opportunities we believe to be the best and provide samples and production volumes in very short time frames.

Manufacturing

We assemble, burn in and test all of our products in our facility in Chatsworth, California. We also conduct all of our manufacturing engineering, quality assurance and documentation control at this facility.

We use a number of subcontractors and suppliers, including Furukawa, to supply subassemblies. We rely upon domestic and international contract manufacturers for most of our printed circuit board assembly. Our manufacturing supply chain management team manages these relationships supported by our research and development group. We do not have any long-term contracts with any of our contract manufacturers and none of them are obligated to perform assembly services for us for any specific period or at any specific price, except as may be provided in a particular purchase order.

We provide quality assurance through internal testing procedures throughout the entire manufacturing process. Our quality control procedures include vendor inspection, incoming material inspection, in-process testing and outgoing inspection. We provide specialized training to assure the competency of our manufacturing personnel, and we maintain ISO 9002 certification.

We purchase several key components for our products from a limited number of suppliers. The components that we purchase include integrated circuits, lasers, light emitting diodes, vertical cavity surface-emitting lasers, photodiode devices and other passive electronic components. We have periodically experienced shortages and delivery delays for these materials. Because we operate in an industry where material supplies are constrained, we maintain an inventory of some limited source components to decrease the risk of shortage. As a result, we have excess inventory of these components which have led to write downs of excess inventory.

Research and Development

In fiscal 1999, 2000 and 2001, our research and development expenses were \$1.1 million, \$2.5 million and \$3.0 million, respectively. We also incurred development costs of \$84,000 paid to Furukawa in 2000 for the automation of our product testing procedure. We believe that our experienced optics engineers and the modular nature of our products allowed us to enjoy relatively low research and development expenses in the past. In addition, Furukawa has developed a number of innovative components that we have integrated into our products and has assisted in the automation of key portions of our manufacturing process. We plan to continue to collaborate with Furukawa as we expand our internal research and development capabilities. However, we have no research contracts or agreements with Furukawa at this time.

We expect to increase our total research and development expenses to provide resources to develop new product lines and fund development contracts with universities, research institutes and companies. As a result, we expect our future research and development expenses to increase in absolute dollars and as a percentage of revenue. We will continue to focus our research and development activities on enhancing our existing products, developing new products to meet the evolving needs of our customers within our existing markets and supporting emerging standards that are consistent with our product strategies.

Sales, Marketing and Technical Support

We market and sell our products primarily through our direct sales force supported by independent manufacturers' representatives and distributors. We focus our marketing on fiber optic communication equipment manufacturers in the fiber optic metropolitan area and high-speed premises networks markets. Our direct sales force maintains close contact with our customers and provides technical support to our manufacturers' representatives and distributors. Our direct sales force is located in our sales offices in Chatsworth, California, Franklin, Massachusetts, Bury St. Edmunds, England, Richardson, Texas and Ottawa, Canada. We plan to expand our direct sales force and open an additional sales office in San Jose, California. Our customer service department in our Chatsworth facility provides day-to-day updates on orders and deliveries to our customers.

We have established contractual relationships with manufacturers' representatives and distributors in North America, Europe, Israel and Asia. Manufacturers' representatives and distributors are third parties who provide commercial and technical support in selling our products to customers. Manufacturers' representatives represent us with customers, but customers place orders directly with us. We pay the manufacturers' representatives a fee for this service. Distributors perform the same function, but differ in that the distributor buys products from us and resells them at a profit to the end customer. We have short-term contracts with our manufacturers' representatives and distributors which can be cancelled by either party upon 30 days notice. We have an office in England which provides commercial and technical support to our customers in Europe. We also have an office in Ottawa, Canada which provides commercial and technical support to our customers in Canada. We intend to expand our indirect sales activity by establishing relationships with additional independent manufacturer's representatives and distributors. Please refer to Note 12 to our Notes to Financial Statements for further information about our geographic areas.

Our marketing efforts are focused on increasing customer awareness of our brand name, and the features and benefits of our optical subsystems and modules. The key components of our marketing efforts include:

- Interaction with customers during product development and through detailed technical interaction during the product sampling phase;
- Expansion of our applications group to provide our customers with complete technical information on our products as well as design and troubleshooting assistance and reference designs with chip sets supplied by the major integrated circuit companies; and
- Participation in major trade show events and conferences in the communications network industry to promote our broad lines of optical subsystems and modules.

In addition, we advertise and promote our activities in industry trade journals and publications targeting design engineers. We also interact with our customers in industry associations and standards committees to promote and further enhance Gigabit Ethernet, Fibre Channel and other industry standards and to increase our visibility as industry experts.

We provide extensive technical support to our customers during their design and qualification process through direct contact with our engineers, our applications group and our Web site, which includes product documentation and application notes. After the design-in phase, we provide support for our customers during their manufacturing process. Our account managers and our customer service personnel, who work closely with our manufacturing and quality groups, provide this support.

Competition

The metropolitan area and high-speed premises networks markets for optical subsystems and modules for optical communication network applications is highly competitive and subject to rapidly changing technology. We believe the primary competitive factors impacting our business are as follows:

- cost-effective products that balance performance requirements with the cost of the product;
- timeliness of new product introductions;
- scope and responsiveness of service and technical support;
- established reputation with key customers;
- technical innovation;
- quality and reliability of our products;
- breadth of product offerings;
- gaining design approval during our customers design cycle;
- compatibility with emerging industry standards;
- price characteristics;

- ⊙ ability to rapidly scale production for high volumes; and
- ⊙ data rate, port density and other performance features.

We believe that we have established a favorable position in the metropolitan area and high-speed premises network markets by identifying and focusing on fiber optic subsystems and modules specifically for these markets. We believe that we have a combination of comprehensive product offerings, management and design expertise, market understanding and manufacturing capabilities that are focused on these markets. We compete primarily with Agere Systems, Agilent Technologies, ExceLight Communications, Finisar, Infineon Technologies, IBM, JDS Uniphase, Luminent, Stratos Lightwave and Tyco International. Many of our current and potential competitors have significantly greater financial, technical, marketing, purchasing and other resources than we do. We have competitors for all of our current products. However, we believe that we do not have a single competitor that offers the same range of products as us.

Our products may also compete with technologies that provide alternatives to optical networking, including fixed and mobile radio, free space point-to-point optical transmission and copper-based technologies such as digital subscriber line, or DSL, and cable modems. Most of these technologies provide lower speed and shorter distance capabilities than optical networking technologies, but may provide certain advantages such as lower costs and mobile capabilities. However, in our primary market for high-speed communications, we do not expect to face significant competition from these technologies in the future. See "Business—Risk Factors—Our markets are highly competitive, some of our customers are also our competitors, and our other customers may choose to purchase our competitors' products rather than our products or develop internal capabilities to produce their own fiber optic subsystems and modules."

Intellectual Property

Our success and ability to compete is dependent in part on our proprietary technology. We are able to rely on a combination of copyright, trademark and trade secret laws and confidentiality agreements to establish and protect our proprietary rights. To date, we have relied primarily on proprietary processes and know-how to protect our intellectual property. Although we currently do not have any patents or patent applications pending, our intellectual property primarily consists of proprietary processes and know-how relating to our product design processes, assembly drawings, assembly processes and testing procedures:

We currently do not license to or from any third parties the technology used in the manufacture of our fiber optic subsystems and modules. In addition, no technology is transferred or licensed in connection with our supply relationship with Furukawa. Accordingly, Furukawa owns the technology relating to the manufacture of its laser and other products we purchase for incorporation into our products and may license or sell this technology to other parties. We own the technology relating to the manufacture of our fiber optic subsystems and modules. A disruption of our supply relationship with Furukawa would not have a material impact on our rights to the technology required to produce our products. We have not transferred to Furukawa any intellectual property rights that would allow it to compete with us in the metropolitan area markets. However, there can be no assurance that Furukawa would not develop in the future internal capabilities to manufacture fiber optic subsystems and modules similar to and competitive with our products.

Litigation may be necessary in the future to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. This litigation could result in substantial costs and diversion of resources and could significantly harm our business. See "Business—Risk Factors—If we are unable to protect our proprietary technology, this technology could be misappropriated, which would make it difficult for us to compete in our industry." From time-to-time, third parties may assert patent, copyright, trademark and other intellectual property rights to technologies and in various jurisdictions that are important to our business. We are currently defendants in an alleged infringement lawsuit brought by Methode Electronics, Inc. and Stratos Lightwave, Inc. For further details see "Legal Proceedings." Any claims asserting that our products infringe or may infringe proprietary rights of third parties, if determined adversely to us, could significantly harm our business. Any claims, with or without merit, could be time-consuming, result in costly litigation, divert the efforts

of our technical and management personnel, cause product shipment delays or require us to enter into royalty or licensing agreements, any of which could significantly harm our business. Royalty or licensing agreements, if required, may not be available on terms acceptable to us, if at all. In addition, our agreements with our customers typically require us to indemnify our customers from any expense or liability resulting from claimed infringement of third party intellectual property rights. In the event a claim against us is successful, we could be liable for significant monetary damages. If we cannot obtain a license to the relevant technology on acceptable terms or license a substitute technology or redesign our products to avoid infringement, our business would be significantly harmed. See "Business—Risk Factors—We could be subjected to additional litigation regarding intellectual property rights, which may divert management attention, cause us to incur significant costs or prevent us from selling our products."

Employees

As of September 30, 2001, we had 285 full-time employees and no part-time employees. On July 30, 2001, we announced the elimination of approximately 110 jobs, primarily in the manufacturing area, effective during our fourth quarter. Positions in research and development and sales and marketing were not affected. Our employees are not represented by any collective bargaining agreements and we have never experienced a work stoppage. Notwithstanding the current downturn, we consider our employee relations to be generally good.

Our Relationship with Furukawa

We were incorporated as a California corporation in October 1991. In November 1991, a wholly owned subsidiary of The Furukawa Electric Co., Ltd. provided our initial capital investment. Furukawa, a publicly held company incorporated under the laws of Japan, is one of the world's leading manufacturers of electric wire and cable, nonferrous metals and related products. It also provides engineering services, including the installation of power and telecommunications cables, and is a major manufacturer of fiber optic cable. Furukawa's stock is publicly traded on the Tokyo Exchange Nikkei in Japan. Furukawa beneficially owns all of our outstanding Class B common stock, which as of December 5, 2001 represented 61.1% of our outstanding shares of common stock and 94.0% of the combined voting power of all of our outstanding common stock.

Our relationship with Furukawa has allowed us to benefit from the optical device and packaging technologies developed at its laboratories in Japan which are incorporated into laser products that we purchase from Furukawa for inclusion in our products. We have also established a close working relationship with Furukawa's research and development team through periodic meetings and discussions to understand our product and manufacturing requirements. Under these arrangements, Furukawa customizes to our specifications the components that it supplies to us. For example, Furukawa has developed laser products with customized features in the areas of package design and power output. We have not licensed from Furukawa any of its optical device or other technologies.

We currently purchase the majority of lasers from Furukawa using short-term purchase orders. These lasers are critical parts in the manufacture of our subsystems and modules. We have enjoyed a reliable supply of these critical components from Furukawa in the past. However, we do not have a long-term supply contract with Furukawa and we have no plans to enter into a long-term supply contract in the future. Consequently, we may in the future seek alternative suppliers or to develop our own laser production capabilities.

From time to time our research and development team works closely with Furukawa's team to assist in the development of our design and manufacturing process. For example, in July 2000 we entered into a short-term development contract with Furukawa to assist us in the purchase, system design, operation, study, and execution of new equipment orders to automate our product testing operations. We paid Furukawa \$84,000 for these services under the development contract. We may enter into similar development agreements with Furukawa in the future. However we have no current commitments and currently have no development agreements under negotiation with Furukawa. We believe that our prior business dealings with Furukawa and its subsidiaries and affiliates were on terms that were no less favorable than terms that would be available from unrelated third parties for similar transactions.

RISK FACTORS

You should carefully consider the following risks before you decide to buy shares of our Class A common stock. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties, including those risks set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations" below, may also adversely impact and impair our business. If any of the following risks actually occur, our business, results of operations or financial condition would likely suffer. In such case, the trading price of our Class A common stock could decline, and you may lose all or part of the money you paid to buy our stock.

This Report contains forward-looking statements based on the current expectations, assumptions, estimates and projections about us and our industry. These forward-looking statements involve risks and uncertainties. Our actual results could differ materially from those discussed in these forward-looking statements as a result of certain factors, as more fully described in this section and elsewhere in this Report. We do not undertake to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

We derive a significant portion of our total revenue from a few significant customers, and our total revenue may decline significantly if any of these customers cancels, reduces or delays purchases of our products or extracts price concessions from us.

Our success depends on our continued ability to develop and maintain relationships with a limited number of significant customers. We sell our products into markets dominated by a relatively small number of systems manufacturers, a fact that limits the number of our potential customers. Our dependence on orders from a relatively small number of customers makes our relationship with each customer critical to our business.

We do not have long-term sales contracts with our customers. Instead, sales to our customers are made on the basis of individual purchase orders that our customers may cancel or defer on short notice without significant penalty. In the past, some of our major customers canceled, delayed or significantly accelerated orders in response to changes in the manufacturing schedules for their systems, and they are likely to do so in the future. Some of our customers conduct their business by placing orders for comparable products with more than one supplier and canceling all remaining orders once they have received sufficient deliveries for their planned production. The reduction, cancellation or delay of individual customer purchase orders would cause our revenue to decline. Moreover, these uncertainties complicate our ability to accurately plan our manufacturing schedule. Additionally, if any of our customers cancel or defer orders, our operating expenses may increase as a percentage of revenue.

In the past, our customers have sought price concessions from us, and they are likely to continue to do so in the future. In addition, some of our customers may shift their purchases of products from us to our competitors. The loss of one or more of our significant customers, our inability to successfully develop relationships with additional customers or future price concessions could cause our revenue to decline significantly.

Our continued success in generating revenue depends on growth in construction of fiber optic metropolitan area networks and high-speed premises networks.

Our fiber optic subsystems and modules are used primarily in metropolitan area networks and high-speed premises networks. These markets are rapidly evolving, and it is difficult to predict their potential size or future growth rate. In addition, we are uncertain as to the extent to which fiber optic technologies will be used in these markets. Our success in generating revenue will depend on the growth of these markets and their adoption of fiber optic technologies.

The current downturn in our industry have caused communications service providers to reduced their capital spending on fiber optic equipment and delayed the deployment of new and build-out of existing fiber optic networks. As a result, our growth rate has been significantly lower than our historical quarterly growth rate. For

example, during the third and fourth quarter of fiscal 2001, revenue decreased 17.9% and 62.3%, respectively, from the immediately preceding quarters primarily due to the economic downturn in the communications industry.

As the result of currently unfavorable economic and market conditions, (a) our revenue is declining, (b) we are unable to predict future revenue accurately, and (c) we are currently unable to provide guidance for future financial performance. The conditions contributing to this difficulty include:

- uncertainty regarding the capital spending plans of the major telecommunications carriers, upon whom our customers and, ultimately we, depend for revenue;
- the telecommunications carriers' current limited access to the capital required for expansion;
- our customers decreasing their excess inventory levels, which, in turn, reduces our revenue;
- lower near term revenue visibility; and
- general market and economic uncertainty.

Based on these and other factors, many of our major customers have reduced, modified, cancelled or rescheduled orders for our products and have expressed uncertainty as to their future requirements. As a result, our revenue in future periods may continue to decline. In addition, our ability to meet financial expectations for future periods may be harmed.

We are dependent on a limited number of suppliers for most of our key components. If these suppliers are unable to meet our manufacturing requirements, we may experience production delays leading to delays in shipments, increased costs and cancellation of orders for our products.

We purchase several key components that we incorporate into our products from a limited number of suppliers. We also purchase the majority of lasers from Furukawa. We do not have long-term supply contracts with any of our key suppliers. Our dependence on a small number of suppliers and our lack of long-term supply contracts exposes us to several risks, including our potential inability to obtain an adequate supply of quality components, price increases and late deliveries. We have experienced shortages and delays in obtaining key components in the past and expect to experience shortages and delays in the future.

In the past, industry capacity has been constrained and some of our component suppliers placed limits on the number of components sold to us. If industry capacity becomes constrained in the future, our component suppliers may place similar limits on us. We do not have any control over these limits, and our suppliers may choose to allocate more of their production to our competitors. In addition, our suppliers could discontinue the manufacture or supply of these components at any time.

A disruption in, or termination of, our supply relationship with Furukawa or any of our other key suppliers, or our inability to develop relationships with new suppliers would interrupt and delay the manufacturing of our products which could result in delays in our revenue or the cancellation of orders for our products. We may not be able to identify and integrate alternative suppliers in a timely fashion, or at all. Any transition to alternative suppliers would likely result in delays in shipment, quality control issues and increased expenses, any of which would limit our ability to deliver products to our customers. Furthermore, if we are unable to identify an alternative source of supply, we may have to redesign or modify our products, which would cause delays in shipments, increase design and manufacturing costs and require us to increase the prices of our products.

Our future operating results are likely to fluctuate from quarter to quarter, and if we fail to meet the expectations of securities analysts or investors, our stock price could decline significantly.

Our historical quarterly operating results have varied significantly, and our future quarterly operating results are likely to continue to vary significantly from period to period. As a result, we believe that period-to-period

comparisons of our operating results should not be relied upon as an indicator of our future performance. Some of the factors which could cause our operating results to vary include:

- ⊖ fluctuations in demand for, and sales of, our products, which is dependent on the implementation of fiber optic networks;
- ⊖ the timing of customer orders, particularly from our significant customers;
- ⊖ competitive factors, including introductions of new products, product enhancements and the introduction of new technologies by our competitors, the entry of new competitors into the fiber optic subsystems and modules market and pricing pressures;
- ⊖ our ability to control expenses;
- ⊖ the mix of our products sold; and
- ⊖ economic conditions specific to the communications and related industries.

We incur expenses from time to time that may not generate revenue until subsequent quarters. In addition, in connection with new product introductions, we incur research and development expenses and sales and marketing expenses that are not matched with revenue until a subsequent quarter when the new product is introduced. We cannot assure you that our expenditures on manufacturing capacity will generate increased revenue in subsequent quarters. If growth in our revenue does not outpace the increase in our expenses, our quarterly operating results may fall below expectations and cause our stock price to decline significantly.

Due to these and other factors, we believe that our quarterly operating results are not an indicator of our future performance. If our operating results are below the expectations of public market analysts or investors in future quarters, the trading price of our Class A common stock would be likely to decrease significantly.

General economic factors could negatively impact our growth plan.

During our fiscal year ended September 30, 2001, unfavorable economic conditions in the United States detrimentally affected the U.S. manufacturing industry and sales of fiber optics equipment to service providers and communication equipment companies. Announcements by fiber optics equipment manufacturers and their customers during this period indicate that there is a reduction in spending for fiber optic equipment as a result of the economic slowdown and efforts to reduce existing inventories. Based on these and other factors, some of our customers have reduced, modified, cancelled or rescheduled orders for our products and have expressed uncertainty as to their future requirements. In addition, the economic slowdown has required us to aggressively manage our costs and expenses, including our July 2001 announcement of the elimination of approximately 110 jobs primarily in the manufacturing area, and may require us to implement further cost management procedures in the future. Our business, operating results and financial condition will suffer if economic conditions in the United States worsen, the fiber optics equipment market continues to slowdown, or if a wider or global economic slowdown occurs.

If we do not develop and introduce new products with higher average selling prices in a timely manner, the overall average selling prices of our products will decrease.

The market for fiber optic subsystems and modules is characterized by declining average selling prices for existing products due to increased competition, the introduction of new products, product obsolescence and increased unit volumes as manufacturers deploy new network equipment. We have in the past experienced, and in the future may experience, period-to-period fluctuations in operating results due to declines in our overall average selling prices. We anticipate that the selling prices for our existing products will decrease in the future in response to product introductions by competitors or us, or other factors, including pressure from significant customers for price concessions. Therefore, we must continue to develop and introduce new products that can be sold at higher prices on a timely basis to maintain our overall average selling prices. Failure to do so could cause our revenue and gross margins to decline.

If our customers do not approve our manufacturing process and qualify our products, we will lose significant customer sales and opportunities.

Customers generally will not purchase any of our products before they qualify them and approve our manufacturing process and quality control system. Our customers may require us to register under international quality standards, such as ISO 9002. Delays in product qualification or loss of ISO 9002 certification may cause a product to be dropped from a long-term supply program and result in a significant lost revenue opportunity. If particular customers do not approve of our manufacturing process, we will lose the sales opportunities with those customers.

If we fail to predict our manufacturing requirements accurately, we could incur additional carrying costs and have excess and obsolete inventory or experience manufacturing delays, which could cause us to lose orders or customers.

We currently use historical data, a backlog of orders and estimates of future requirements to determine our demand for components and materials. We must accurately predict both the demand for our products and the lead-time required to obtain the necessary components and materials. Lead times for components and materials vary significantly, depending on factors such as the specific supplier, the size of the order, contract terms and demand for each component at a given time. We generally maintain excess inventory of parts which increases our inventory carrying costs and periodically causes us to have excess and obsolete inventory. However, if we were to underestimate our purchasing requirements, manufacturing could be interrupted, resulting in delays in shipments.

Our markets are highly competitive, some of our customers are also our competitors, and our other customers may choose to purchase our competitors' products rather than our products or develop internal capabilities to produce their own fiber optic subsystems and modules.

The market for fiber optic subsystems and modules is highly competitive and we expect competition to intensify in the future. Our primary competitors include Agere Systems, Agilent Technologies, ExceLight Communications, Finisar, Infineon Technologies, IBM, JDS Uniphase, Luminent, Stratos Lightwave and Tyco International. We also face indirect competition from public and private companies providing products that address the same fiber optic network problems that our products address. The development of alternative solutions to fiber optic transmission problems by our competitors, particularly systems companies that also manufacture modules, such as Alcatel (via Alcatel Optronics), Fujitsu, and Nortel Networks, could significantly limit our growth and harm our competitive position.

Many of our current competitors and potential competitors have longer operating histories and significantly greater financial, technical, sales and marketing resources than we do. As a result, these competitors are able to devote greater resources to the development, promotion, sale and support of their products. In addition, our competitors that have large market capitalizations or cash reserves are in a much better position to acquire other companies in order to gain new technologies or products that may displace our products. Any of these potential acquisitions could give our competitors a strategic advantage. In addition, many of our competitors have much greater brand name recognition, more extensive customer bases, more developed distribution channels and broader product offerings than we do. These companies can use their broader customer bases and product offerings and adopt aggressive pricing policies to gain market share.

In addition, existing and potential customers, especially in Japan and other international markets, may also become competitors. These customers have the internal capabilities to integrate their operations by producing their own optical subsystems and modules or by acquiring our competitors or the rights to produce competitive products or technologies, which may allow them to reduce their purchases or cease purchasing from us.

We expect our competitors to introduce new and improved products with lower prices, and we will need to do the same to remain competitive. We may not be able to compete successfully against either current or future competitors with respect to new products. We believe that competitive pressures may result in price reductions, reduced margins and our loss of market share.

Our sales cycle runs from our customers' initial design to production for commercial sale. This cycle is long and unpredictable and may cause our revenue and operating results to vary from our forecasts.

The period of time between our initial contact with a customer and the receipt of a purchase order from that customer may span to more than a year and varies by product and customer. During this time, customers may perform, or require us to perform, extensive evaluation and qualification testing of our products. Generally, they consider a wide range of issues before purchasing our products, including interoperability with other subsystems and components, product performance and reliability. We may incur substantial sales and marketing expenses and expend significant management effort while potential customers are qualifying our products. Even after incurring these costs, we ultimately may not sell any or only small amounts of our products to a potential customer. If sales forecasts to specific customers are not realized, our revenue and results of operations may be negatively impacted.

If we do not achieve acceptable manufacturing yields in a cost-effective manner, or we are required to develop new manufacturing processes to improve our yields, our operating results would be impaired.

The manufacture of our products involves complex and precise processes. As a result, it may be difficult to cost-effectively meet our production goals. In addition, changes in our manufacturing processes or those of our suppliers, or our suppliers' inadvertent use of defective materials, could significantly reduce our manufacturing yields, increase our costs and reduce our product shipments. To increase our gross margin, while offering products at prices acceptable to customers, we will need to develop new manufacturing processes and techniques that will involve higher levels of automation.

If we are unsuccessful in defending against Methode's lawsuit for patent infringement, we may be required to pay significant monetary damages to Methode and may be enjoined from manufacturing and selling some of our products.

In October 1999, Methode Electronics, Inc. filed a lawsuit against Infineon Technologies Corporation and us in the U.S. District Court for the Northern District of California seeking unspecified damages, including monetary damages, injunctive relief, attorneys' fees and costs arising from our alleged infringement of five patents assigned to Methode. Two of the patents are alleged to relate to the technology incorporated in our 1x9 pin configuration products, such as our singlemode SONET/SDH transceiver products. The remaining three patents are alleged to relate to technology incorporated in our gigabit interface converter, or GBIC, products, such as our Gigabit Ethernet and Fibre Channel products.

In 2000, Methode sought to amend its complaint to add Stratos Lightwave Inc., a Methode spin-off and assignee of the patents-in-suit, as an additional plaintiff and to allege that we infringe a sixth patent, which purportedly relates to certain aspects of our GBIC products. Methode withdrew its motion to amend with respect to the sixth patent, though Methode remains free to reassert the claim at a later time, whether in the current action or in a separate proceeding. The court later added Stratos as a plaintiff to the lawsuit. For the fiscal year ended September 30, 2001, sales of our 1x9 pin configuration products alleged to infringe the Methode patents accounted for 31.7% of our total revenue. Sales of our products alleged to infringe the other Methode patents represented an immaterial amount of our total revenue for the fiscal year ended September 30, 2001.

In recent discussions among the parties' counsel, Methode has indicated that it believes our recently released Small Form Factor Pluggable, or SFP, transceiver infringes one or more of Methode's patents, including the patents at issue in the current action. Methode has also indicated that it believes our Small Form Factor, or SFF, transceiver infringes Methode patents. While Methode has filed actions against other manufacturers regarding such transceivers, Methode has not filed any additional actions against us, nor has Methode attempted to add SFPs, SFFs or any other transceivers as additional accused devices in the current action. In the event that Methode filed a lawsuit (or sought to amend its current lawsuit) and charged us with infringement through the manufacture and sale of these transceivers, an unfavorable resolution of such a lawsuit could have a material adverse impact on our business.

Trial is scheduled to commence in September 2002. We intend to defend ourselves vigorously in this lawsuit. The outcome of this lawsuit, however, is uncertain. Our expenses and other resources expended on this lawsuit have been greater in fiscal year end September 30, 2001 than in prior years. As this lawsuit progresses, we expect to incur greater legal fees and expenses. In addition, our defense of this lawsuit is expected to divert the efforts and attention of our key management and technical personnel. As a result, our defense of this lawsuit, regardless of its eventual outcome, will likely be costly and time consuming. If Methode's patents are found to be valid and enforceable and our products are found to infringe, we may be enjoined from manufacturing or selling some of our products, we may be liable for significant monetary damages and/or we may be required to obtain a license from Methode to use its patented technology, any of which could disrupt our ability to manufacture and sell our products. If we are required to obtain a license to any of Methode's patents, such license may not be available from Methode on commercially reasonable terms, if at all. For additional details regarding this lawsuit, see "Legal Proceedings."

We could be subjected to additional litigation regarding intellectual property rights, which may divert management attention, cause us to incur significant costs or prevent us from selling our products.

In recent years, there has been significant litigation in the United States involving patents and other intellectual property rights in the networking technologies industry. Many companies aggressively use their patent portfolios to bring infringement claims against competitors. As a result, we may be a party to litigation or be involved in disputes over our alleged infringement of others' intellectual property in the future, in addition to our current dispute with Methode. These claims and any resulting lawsuit, if successful, could subject us to significant liability for damages and prevent us from making or selling some of our products. These lawsuits, regardless of their merit, would likely be time-consuming and expensive to resolve and would divert management's time and attention. Any potential intellectual property litigation also could force us to do one or more of the following:

- stop selling, incorporating or using our products that use the infringed intellectual property;
- obtain a license to make, sell or use the relevant technology from the owner of the infringed intellectual property, which license may not be available on commercially reasonable terms, if at all; or
- redesign the products to not use the infringed intellectual property, which may not be technically or commercially feasible.

If we are forced to take any of these actions, we may be limited in our ability to execute our business plan.

We may in the future initiate claims or litigation against third parties for infringement of our proprietary rights. These claims could result in costly litigation and the diversion of our technical and management personnel. In the process of asserting our intellectual property rights, these rights could be found to be invalid, unenforceable or not infringed. Failure to successfully assert our intellectual property rights could result in our inability to prevent our competitors from utilizing our proprietary rights.

If we are unable to protect our proprietary technology, this technology could be misappropriated, which would make it difficult for us to compete in our industry.

Our success and ability to compete is dependent in part on our proprietary technology. We currently do not have any patents, and we have no pending patent applications. We rely on a combination of copyright, trademark and trade secret laws, as well as confidentiality agreements to establish and protect our proprietary rights. Existing copyright, trademark and trade secret laws afford only limited protection. In addition, the laws of some foreign countries do not protect the unauthorized use of our proprietary technology and processes to the same extent as do the laws of the United States, and policing the unauthorized use of our products is difficult. Any infringement of our proprietary rights could result in costly litigation, and any failure to adequately protect our proprietary rights could result in our competitors offering similar products, potentially resulting in the loss of some of our competitive advantage and a decrease in our revenue.

If we are unable to generate adequate additional revenue as a result of the planned expansion of our sales operations, our competitive position may be harmed and our revenue or margins may decline.

Historically, we have relied primarily on a limited direct sales force, supported by third party manufacturers' representatives and distributors, to sell our products. Our sales strategy focuses primarily on developing and expanding our direct sales force, manufacturers' representatives and distributors. We will incur significant costs related to the expansion of our sales operations. If the expansion of our sales operations does not generate adequate additional revenue, the cost of any expansion may exceed the revenue generated, and our margins may decline. To the extent we are unsuccessful in expanding our direct sales force, we will likely be unable to compete successfully against the significantly larger and well-funded sales and marketing operations of many of our current or potential competitors. In addition, if we fail to develop relationships with significant manufacturers' representatives or distributors, or if these representatives or distributors are not successful in their sales or marketing efforts, sales of our products may decrease and our competitive position would be harmed. Our representatives or distributors may not market our products effectively or may not continue to devote the resources necessary to provide us with effective sales, marketing and technical support. Our inability to effectively manage the expansion of our domestic sales and support staff or maintain existing or establish new relationships with manufacturer representatives and distributors would harm our revenue and result in declining margins.

The market for our products is new and is characterized by rapid technological changes and evolving industry standards. If we do not respond to the changes in a timely manner, our products likely will not achieve market acceptance.

The market for our products is characterized by rapid technological change, new and improved product introductions, changes in customer requirements and evolving industry standards. Our future success will depend to a substantial extent on our ability to develop, introduce and support cost-effective new products and technology on a successful and timely basis. We plan to increase our budget for research and development of new products and technology. Since these costs are expensed as incurred, we expect a negative impact on our reported net income. If we fail to develop and deploy new cost-effective products and technologies or enhancements of existing products on a timely basis, or if we experience delays in the development, introduction or enhancement of our products and technologies, our products will no longer be competitive and our revenue will decline.

The development of new, technologically advanced products is a complex and uncertain process requiring high levels of innovation and highly skilled engineering and development personnel, as well as the accurate anticipation of technological and market trends. We cannot assure you that we will be able to identify, develop, manufacture, market or support new or enhanced products on a timely basis, if at all. Furthermore, we cannot assure you that our new products will gain market acceptance or that we will be able to respond effectively to product announcements by competitors, technological changes or emerging industry standards. Our failure to respond to product announcements, technological changes or industry changes in standards would likely prevent our products from gaining market acceptance and harm our competitive position.

Recent terrorist activities and resulting military and other actions could adversely affect our business.

Recent terrorist attacks in the United States, as well as continued threats of terrorism within the United States and abroad and current and future military response to them have created many economic and political uncertainties that make it extremely difficult for us, our customers and our suppliers to accurately forecast and plan future business activities. This reduced predictability challenges our ability to operate profitably or to grow our business. In particular, it is difficult to develop and implement strategies, sustainable business models and efficient operations, and effectively manage contract manufacturing and supply chain relationships. In addition, the continued threats of terrorism and the heightened security measures in response to such threats have and may continue to cause significant disruption to commerce throughout the world. Disruption in air transportation in response to these threats or future attacks may result in transportation and supply-chain disruptions, increase our costs for both receipt of inventory and shipment of products to our customers, and cause customers to defer their

purchasing decisions. Disruptions in commerce could also cause consumer confidence and spending to decrease or result in increased volatility in the U.S. and worldwide financial markets and economy. They also could result in economic recession in the U.S. or abroad. Any of these occurrences could have a significant impact on our operating results, revenues and costs and may result in the volatility of the market price for our Class A common stock and on the future price of our Class A common stock.

Our success depends on our key personnel, including our executive officers, the loss of any of whom could harm our business.

Our success depends on the continued contributions of our senior management and other key research and development, sales and marketing and operations personnel, including Muoi Van Tran, our Chief Executive Officer and President, Susie Nemeti, our Chief Financial Officer and Vice President of Finance and Administration, and Mohammad Ghorbanali, our Chief Operating Officer and Vice President of Technical Operations. Competition for employees in our industry is intense. We do not have life insurance policies covering any of our executives. There can be no assurance that we will be successful in retaining such key personnel, or that we will be successful in hiring replacements or additional key personnel. Our loss of any key employee, the failure of any key employee to perform in his or her current position, or the inability of our officers and key employees to expand, train and manage our employee base would prevent us from executing our growth strategy. See "Management."

We will need to attract and retain highly qualified managers, sales and marketing and technical support personnel. We have had difficulty hiring the necessary engineering, sales and marketing and management personnel in the past. If we fail to hire and retain qualified personnel when needed, our product development efforts and customer relations will suffer. Our key management personnel have limited experience in managing the growth of technologically complex businesses in a rapidly evolving environment. If we are unable to manage our growth effectively, we will incur additional expenses which will negatively impact our operating results.

Our products may have defects that are not detected until full deployment of a customer's system. Any of these defects could result in a loss of customers, damage to our reputation and substantial costs.

We design our products for large and complex fiber optic networks, and our products must be compatible with other components of the network system, both current and future. We have experienced in the past, and may continue to experience in the future, defects in our products. Defects in our products or incompatibilities in our products may appear only when deployed in networks for an extended period of time. In addition, our products may fail to meet our customers' design specifications, or our customers may change their design specifications after the production of our product. A failure to meet our customers' design specification often results in a loss of the sale due to the length of time required to redesign the product. We may also experience defects in third party components that we incorporate into our products. We have experienced the following due to our inability to detect or fix errors in the past:

- ⊗ increased costs associated with the replacement of defective products, redesign of products to meet customer design specification and/or refund of the purchase price;
- ⊗ diversion of development resources; and
- ⊗ increased service and warranty costs.

Our products and the systems into which our products are incorporated must comply with domestic and international governmental regulations, and if our products do not meet these regulations, our ability to sell our products will be restricted.

Our products are subject to various regulations of U.S. and foreign governmental authorities principally in the areas of radio frequency emission standards and eye safety. Radio frequency emission standards govern allowable radio interference with other services. Eye safety standards govern the labeling and certification of laser products to ensure that they are used in a way that does not create a hazard to the human eye. Our products and the systems into which they are incorporated must also comply with international standards and governmental standards of the foreign countries where our products are used. Our inability, or the inability of

our customers, to comply with existing or evolving standards established by regulatory authorities, or to obtain timely domestic or foreign regulatory approvals or certificates will restrict our ability to sell our products.

We are subject to environmental laws and other legal requirements that have the potential to subject us to substantial liability and increase our cost of doing business.

Our properties and business operations are subject to a wide variety of federal, state and local environmental, health and safety laws and other legal requirements, including those relating to the storage, use, discharge and disposal of toxic, volatile or otherwise hazardous substances. We may be required to incur substantial costs to comply with current or future legal requirements. In addition, if we fail to obtain required permits or otherwise fail to operate within these or future legal requirements, we may be required to pay substantial penalties, suspend our operations or make costly changes to our manufacturing processes or facilities. We believe our properties and business operations are in compliance with applicable environmental laws. We do not anticipate any material capital expenditures for environmental control facilities for the 2002 fiscal year.

We face risks associated with our international operations that could prevent us from marketing and distributing our products internationally.

Historically, approximately 80% of our sales have been in North America, and we have limited experience in marketing and distributing our products internationally. We intend to expand our international operations in the future. Significant management attention and financial resources are needed to develop our international sales, support and distribution channels and manufacturing. We may not be able to establish or maintain international market demand for our products.

In addition, international operations are subject to other risks, including:

- greater difficulty in accounts receivable collection and longer collection periods;
- difficulties and costs of staffing and managing foreign operations with personnel who have expertise in fiber optic technology;
- unexpected changes in regulatory or certification requirements for optical networks; and
- political or economic instability.

A portion of our international revenue and expenses may be denominated in foreign currencies in the future. Accordingly, we could experience the risks of fluctuating currencies and may choose to engage in currency hedging activities.

We rely on a continuous power supply to conduct our operations, and California's current energy crisis could disrupt our operations and increase our expenses.

All of our manufacturing operations are located in our headquarters in Chatsworth, California. California is in the midst of an energy crisis that could disrupt our operations and increase our expenses. In the event power reserves for the State of California fall to a critically low level, California has on some occasions implemented, and may in the future continue to implement, rolling power blackouts throughout California. If blackouts interrupt our power supply, we would be temporarily unable to continue operations. Any such interruption in our ability to continue operations would delay the manufacture and development of our products, disrupt communications with our customers and suppliers and delay product shipment. Power interruptions could also damage our reputation and could result in lost revenue. Any loss of power could have a material adverse effect on our business, operating results and financial condition. Furthermore, shortages in wholesale electricity supplies have caused power prices to increase. If electricity prices continue to increase and we are unable to conserve our electricity usage, our operating expenses will likely increase, which will have a negative effect on our operating results.

Disruption of our operations at our Chatsworth, California manufacturing facility could require us to lease alternative manufacturing facilities or limit our manufacturing operations.

All of our manufacturing operations are conducted in our Chatsworth, California headquarters. Due to this geographic concentration, a disruption of our manufacturing operations, resulting from sustained process abnormalities, human error, government intervention or natural disasters, such as earthquakes, fires or floods, or other causes, could require us to cease or limit our manufacturing operations. See "Business—Manufacturing" and "Properties."

Our limited experience in acquiring other businesses, product lines and technologies may make it difficult for us to overcome problems encountered in connection with any acquisition we may undertake.

We expect to review opportunities to buy other businesses, products or technologies that would enhance our technical capabilities, complement our current products or expand the breadth of our markets or which may otherwise offer growth opportunities. Our acquisition of businesses or technologies will require significant commitment of resources. We may be required to pay for any acquisition with cash, but we cannot be certain that additional capital will be available to us on favorable terms, if at all. In lieu of paying cash, we could issue stock as consideration for an acquisition that would dilute existing stockholders' percentage ownership, incur substantial debt or assume contingent liabilities. We have no experience in acquiring other businesses and technologies. Potential acquisitions also involve numerous risks, including:

- problems assimilating the purchased operations, technologies or products;
- unanticipated costs associated with the acquisition;
- diversion of management's attention from our core business;
- adverse effects on existing business relationships with suppliers and customers;
- risks associated with entering markets in which we have no or limited prior experience; and
- potential loss of key employees of purchased organizations.

We have business conflicts of interest with Furukawa, the resolution of which may not be as favorable to us as if we were dealing with an unaffiliated third party.

We have historically relied on Furukawa's research and development capabilities to provide us with technologically advanced lasers and fiber optic components which we purchase from Furukawa for inclusion in our products, and we expect to continue to rely on Furukawa in the future. We currently purchase the majority of lasers from Furukawa. We currently have no written agreements with Furukawa with respect to our research and development and supply relationship. We cannot assure you that Furukawa will continue to provide services and components to us, and if not, whether or on what terms we could find adequate alternative sources for these services and components. We believe that our past business dealings with Furukawa and its subsidiaries and affiliates were on terms that were no less favorable than terms that would be available from third parties for similar transactions. We intend to continue to maintain our relationship with Furukawa and Furukawa will continue to control us. The terms of future transactions with Furukawa may or may not be comparable to those that would be available from unaffiliated third parties. See "Related party transactions."

Conflicts of interest may arise between Furukawa and us in a number of areas, including the nature and quality of services rendered by Furukawa to us, potential competitive business activities, sales or distributions by Furukawa of all or any portion of its ownership interest in us, or Furukawa's ability to control our management and affairs. It is possible that business decisions made by management that are in the best interest of our stockholders may conflict with Furukawa's interests. For example, we may decide to enter into or acquire a line of business competitive with Furukawa, or Furukawa may decide to enter into or acquire a line of business competitive with us. Any of these events may alter or eliminate our ability to rely on Furukawa to supply key components to us in the future, increase our costs of producing our products and result in increased competition in our markets. We cannot assure you that we will be able to resolve any conflicts we may have with Furukawa or, if we are able to do so, that the resolution will be favorable to us.

Furukawa will control the outcome of stockholder voting and there may be an adverse effect on the price of our Class A common stock due to disparate voting rights of our Class A common stock and our Class B common stock.

Furukawa beneficially owns all of our outstanding shares of Class B common stock, which as of December 5, 2001 represented 94.0% voting control over all stockholder issues. The holders of our Class A common stock and Class B common stock have identical rights except that holders of our Class A common stock are entitled to one vote per share while holders of our Class B common stock are entitled to ten votes per share on matters to be voted on by stockholders. The differential in the voting rights of our Class A common stock and Class B common stock could adversely affect the price of our Class A common stock to the extent that investors or any potential future purchaser of our shares of Class A common stock give greater value to the superior voting rights of our Class B common stock. Each share of our Class B common stock will automatically convert into one share of Class A common stock if it is transferred to any entity, other than an entity controlling, controlled by or under common control with Furukawa. In addition, our Class B common stock will automatically convert into shares of our Class A common stock if the total number of outstanding shares of Class B common stock falls below 20% of total number of outstanding shares of our common stock. As long as Furukawa has a controlling interest, it will continue to be able to elect our entire board of directors and generally be able to determine the outcome of all corporate actions requiring stockholder approval. As a result, Furukawa will be in a position to continue to control all matters affecting us, including:

- a change of control, including a merger;
- our acquisition or disposition of assets;
- our future issuances of common stock or other securities;
- our incurrence of debt; and
- our payment of dividends on our common stock.

Three members of our board of directors are also executives of Furukawa. These individuals have obligations to both our company and Furukawa and may have conflicts of interest with respect to matters potentially or actually involving or affecting us, such as acquisitions and other corporate opportunities that may be suitable for both Furukawa and us.

ITEM 2. PROPERTIES

Our corporate headquarters, manufacturing, research and development and sales operations are located in Chatsworth, California, where we own and occupy a building of approximately 65,000 square feet. We purchased the property in July 1999 with the proceeds of a \$3.3 million term loan that matures in July 2006. The term loan bears interest on amounts outstanding at a per annum rate equal to LIBOR plus 1.80%. The term loan and a revolving credit facility are secured by all of our assets. In June 2001, we acquired a 145,720 square foot building in Woodland Hills, California for \$18,750,000. The purchase price was paid from our existing cash on-hand. We have not occupied this building and are currently leasing an aggregate of 73,720 square feet of this building to two unrelated parties. In addition, we lease small sales facilities in Franklin, Massachusetts, Richardson, Texas, Nepean, Canada and Bury St. Edmunds, England. The lease for Franklin, Massachusetts and Richardson, Texas are on a month-to-month basis. Our leases for our facilities in Nepean, Canada and Bury St. Edmunds, England expire in January 2002 and January 2005, respectively.

We believe that our existing space is adequate for our current operations. We believe that suitable replacement and additional spaces, if needed, will be available in the future on commercially reasonable terms.

ITEM 3. LEGAL PROCEEDINGS

On October 15, 1999, Methode Electronics, Inc. filed a lawsuit against Infineon Technologies Corporation and us in the United States District Court for the Northern District of California, seeking unspecified damages, including monetary damages, injunctive relief, attorneys' fees and costs arising from our alleged infringement of

some claims contained in Methode's U.S. Patents Nos. 5,528,408, 5,717,533, 5,734,558, 5,864,468 and 5,879,173. Methode alleges that the '408 and '468 Patents relate to technology incorporated in our 1x9 pin configuration products, such as our singlemode SONET/SDH transceivers products. These products combine fiber optic transmitters and receivers in one module that conforms to the internationally agreed SONET/SDH telecommunications standard protocol. Methode alleges that the '533, '558 and '173 Patents, or GBIC Patents, relate to the technology incorporated in our gigabit interface converter, or GBIC, products, such as our Gigabit Ethernet and Fibre Channel products. Our GBIC products are a type of transceiver.

On December 17, 1999, we filed an answer to Methode's complaint denying its claims of infringement and asserting a number of defenses, including non-infringement and invalidity of the asserted patents. On June 27, 2000, Methode filed a motion for leave to amend its complaint to add Stratos Lightwave, Inc., a Methode spin-off and assignee of the patents-in-suit, as an additional plaintiff and to allege that certain aspects of our GBIC products infringe U.S. Reissue Patent No. 36,820 (a reissue of U.S. Patent No. 5,546,281). The court has now added Stratos as a plaintiff to the lawsuit. Methode withdrew its motion to amend with respect to the RE '820 Patent, although Methode and Stratos may later seek to amend the complaint again to allege infringement of the claims of the RE '820 Patent, or they may later file a separate proceeding against us alleging infringement of the reissued patent's claims. For the year ended September 30, 2001, sales of our 1x9 pin configuration products alleged to infringe the '408 and '468 Patents accounted for 31.7% of our total revenue. For the year ended September 30, 2001, sales of our GBIC products alleged to infringe the '533, '558, and '173 Patents (and RE '820 Patent) represented an immaterial amount of our total revenue.

The court granted a motion by us and Infineon to stay that part of the case relating to the claims involving the '408 and '468 Patents, and our 1x9 pin configuration products, pending the completion of the Patent and Trademark Office's re-examination of the '408 Patent. In the reexamination, Methode requested that the Patent and Trademark Office reexamine the claims of the '408 Patent in view of prior art that was not considered by the Patent and Trademark Office prior to the patent's issuance. In November 2000, the Patent and Trademark Office issued a final office action rejecting all claims of the '408 Patent. Stratos, as assignee of the '408 Patent, has appealed the final rejection to the Patent and Trademark Office's Board of Patent Appeals. That part of the lawsuit remains stayed.

The parties have exchanged extensive "Initial Disclosures" and supplemental disclosures of information mandated by the court's local rules. The parties have also conducted and continue to conduct formal discovery regarding the issues in the active part of the case. On June 22, 2001, the court entered an Order Re Claim Construction, in which the court defined three GBIC Patent claim terms disputed by the parties. The parties have agreed upon the interpretation of the other GBIC Patent claim terms at issue. Under the court's current case management schedule, discovery in the case will remain open until April 2002.

In recent discussions among the parties' counsel, Methode has indicated that it believes our recently released Small Form Factor Pluggable, or SFP, transceiver infringes one or more of Methode's patents, including the patents at issue in the current action. Methode has also indicated that it believes our Small Form Factor, or SFF, transceiver infringes Methode patents. While Methode has filed actions against other manufacturers regarding such transceivers, Methode has not filed any additional actions against us, nor has Methode attempted to add SFPs, SFFs or any other transceivers as additional accused devices in the current action. Unless the current case terminates through dispositive motions or through settlement, trial is scheduled to commence in September 2002.

We intend to defend ourselves vigorously in this lawsuit. However, the outcome of this lawsuit is uncertain. Our defense of this lawsuit, regardless of its eventual outcome, will likely be costly and time consuming. We expect to incur greater legal fees and expenses in connection with this lawsuit. If the Methode/Stratos patents are found to be valid and enforceable and our products are found to infringe, we may be enjoined from manufacturing or selling some of our products, we may be liable for significant monetary damages, and we may have to obtain a license from Methode and Stratos to use the patented technology, any of which could harm our business. If we are required to obtain a license to any of the Methode/Stratos patents, such a license may not be available from them on commercially reasonable terms, if at all. See "Risk Factors—If we are unsuccessful in

defending against Methode's and Stratos's lawsuit for patent infringement, we may be required to pay significant monetary damages to Methode and may be enjoined from manufacturing and selling some of our products."

We are not currently involved in any other material legal proceedings, nor have we been involved in any such proceedings that has had or may have a significant effect on our company. We are not aware of any other material legal proceedings threatened or pending against us.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II.

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Market Information

Our Class A common stock has traded on The Nasdaq National Market under the symbol "OCPI" since November 3, 2000. The following table sets forth the range of high and low intra-day sales prices (rounded to the nearest cent) reported on The Nasdaq National Market for our Class A common stock for the periods indicated.

	Price range of Common Stock	
	High	Low
Fiscal Year Ended September 30, 2001:		
First Quarter (November 3, 2000 through December 31, 2000)	\$23.00	\$9.00
Second Quarter	\$21.00	\$6.28
Third Quarter	\$16.49	\$5.63
Fourth Quarter	\$11.00	\$1.92

Recent Share Prices

The following table sets forth the closing sales prices per share of our Class A common stock on The Nasdaq National Market on (i) September 28, 2001 and (ii) December 5, 2001. Because the market price of our Class A common stock is subject to fluctuation, the market value of the shares of our Class A common stock may increase or decrease.

	Closing Price
September 28, 2001	\$2.32
December 5, 2001	\$3.91

Holders

As of December 5, 2001, there were 79 stockholders of record who held shares of our Class A common stock.

Dividend Policy

We have not declared or paid any cash dividends on our capital stock since our inception and we intend to retain future earnings, if any, for use in the operation and expansion of our business and do not anticipate paying cash dividends in the foreseeable future.

Recent Sales of Unregistered Securities

None.

Use of Proceeds from Sales of Registered Securities

On November 3, 2000, we completed an initial public offering of our Class A common stock pursuant to our Registration Statement on Form S-1 (File No. 383-44862) that was declared effective by the Securities Exchange Commission on November 2, 2000. There has been no material change with respect to our use of proceeds from our initial public offering to the information discussed on our annual Report on Form 10-K for the year ended September 30, 2000.

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with, and are qualified by reference to, our consolidated financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations." The selected income statement data for the three fiscal years ended September 30, 2001, 2000 and 1999 and the selected balance sheet data as of September 30, 2001 and 2000 are derived from, and qualified by reference to, the audited consolidated financial statements included elsewhere in this Form 10-K. The selected income statement data for the fiscal years ended September 30, 1998 and 1997 and the selected balance sheet data as of September 30, 1999, 1998 and 1997 are derived from audited financial statements not included in this Form 10-K.

	Fiscal years ended September 30				
	1997	1998	1999	2000	2001
	(In thousands, except per share data)				
Income statement data					
Revenue	\$10,126	\$19,620	\$36,036	\$101,867	\$144,012
Cost of revenue	5,797	11,086	20,860	50,326	94,684
Gross profit	4,329	8,534	15,176	51,541	49,328
Operating Expenses:					
Research and development	465	779	1,134	2,527	2,958
Sales and marketing	563	999	1,364	2,943	3,799
General and administrative	369	712	1,065	3,877	4,553
Total operating expenses	1,397	2,490	3,563	9,347	11,310
Income from operations	2,932	6,044	11,613	42,194	38,018
Other income (expenses), net	62	119	116	305	6,081
Income before income taxes	2,994	6,163	11,729	42,499	44,099
Income taxes	1,205	2,492	4,693	17,319	17,655
Net income	\$ 1,789	\$ 3,671	\$ 7,036	\$ 25,180	\$ 26,444
Earnings per share:					
Basic	\$ 0.06	\$ 0.13	\$ 0.26	\$ 0.91	\$ 0.26
Diluted	\$ 0.02	\$ 0.04	\$ 0.07	\$ 0.25	\$ 0.24
Shares outstanding:					
Basic	27,321	27,321	27,348	27,547	100,263
Diluted	9,842	100,494	101,132	102,500	111,430

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with our financial statements and the related notes to such financial statements included elsewhere in this Report beginning on page F-1. The following discussion contains forward-looking statements that involve risks and uncertainties. The statements are based on current expectations and actual results could differ materially from

those discussed herein. Factors that could cause or contribute to the differences are discussed in "Business—Risk Factors" and elsewhere in this Report.

Overview

We design, manufacture and sell a comprehensive line of high performance, highly reliable fiber optic subsystems and modules for fiber optic transmission systems used to address the bandwidth limitations in metropolitan area networks and high-speed premises networks. Our subsystems and modules include optical transmitters, receivers, transceivers and transponders that convert electronic signals into optical signals and back to electronic signals, enabling high-speed communication of voice and data traffic over public and private networks. We began our operations and shipped our first products in November of 1991 and have been profitable every year since our inception.

Furukawa beneficially owns all of our outstanding Class B common stock, representing 61.1% of our outstanding shares of common stock and 94.0% of the combined voting power of all of our outstanding common stock. Since our inception, we have purchased substantially all of our lasers and the majority of our other fiber optic components from Furukawa. We have relied on Furukawa's research and development capabilities to provide us with technologically advanced lasers and fiber optic components which we purchase from Furukawa for inclusion in our products. We currently purchase the majority of lasers from Furukawa using short-term purchase orders.

We operate in one industry segment, the design and manufacture of fiber optic subsystems and modules. We sell our products to fiber optic communication equipment manufacturers, directly and through contract manufacturers who incorporate them into systems they assemble for equipment manufacturers. We define our customers as equipment manufacturers who have purchased our products directly or ordered our products for incorporation into systems produced by contract manufacturers. We recognize revenue upon product shipment, and sales returns and allowances have been insignificant. For the fiscal year ended September 30, 2001, our 10 largest customers accounted for approximately 74.2% of our total revenue, with Alcatel and Cisco Systems accounting for approximately 20.9% and 19.8% of our total revenue, respectively. No other customer accounted for more than 10.0% of our total revenue for the fiscal year ended September 30, 2001. Although our revenue from sales to our other customers continues to increase, we expect that significant customer concentration will continue for the foreseeable future. Our sales are made on a purchase order basis rather than by long-term purchase commitments. Our customers may cancel or defer purchase orders without penalty on short notice.

In October 1999, Methode Electronics, Inc. filed a lawsuit against Infineon Technologies Corporation and us seeking unspecified damages, including monetary damages, injunctive relief, attorneys' fees and costs arising from our alleged infringement of some of the claims contained in patents assigned to Methode, including patents relating to our 1x9 pin configuration products. After Methode initiated the lawsuit, it assigned to Stratos Lightwave, Inc., a Methode spin-off, all of Methode's rights, title and interest in the patent at issue. The court has added Stratos as a plaintiff to the lawsuit. The parties have exchanged extensive "Initial Disclosures" and supplemental disclosures of information mandated by the court's local rules. Unless the case terminates through dispositive motions or through settlement, trial is scheduled to commence in September 2002. Although our expenses and other resources expended on this lawsuit have been greater in fiscal year ended September 30, 2001 than in prior years, the lawsuit has not had a material effect on our business operations. As the lawsuit progresses, we expect to incur greater legal fees and expenses. In addition, we expect that the defense of this lawsuit will divert the efforts and attention of our key management and technical personnel. For the fiscal year ended September 30, 2001, sales of our 1x9 products alleged to infringe the Methode/Stratos patents accounted for approximately 31.7% of our total revenue. Sales of our other products alleged to infringe the Methode patents represented an immaterial amount of our total revenue for the fiscal year ended September 30, 2001. See "Legal Proceedings."

During the fiscal year ended September 30, 2001, the telecommunications sector, and in particular the fiber optic networking sector, suffered a severe downturn. System providers are scaling back on deployment and have dramatically slowed their purchases of systems from equipment manufacturers. As a result, equipment

manufacturers have also slowed purchases of components and modules from our competitors and from us. Moreover, as equipment manufacturers' sales declined, they have relied on their excess component inventories to meet reduced demand and have moved to reduce their overall component and module inventory levels. Consequently, the slowdown continues to have a negative impact on our business as we face declining sales as the result of our customers' declining business and the resulting adjustment to their inventory levels.

The average selling prices of our products generally decrease as the products mature from factors such as increased competition, the introduction of new products and increased unit volumes. We anticipate that average selling prices of our existing products will continue to decline in future periods although the timing and degree of the declines cannot be predicted with any certainty. We must continue to develop and introduce new products that incorporate features that can be sold at higher average selling prices on a timely basis.

Our cost of revenue consists principally of materials, as well as salaries and related expenses for manufacturing personnel, manufacturing overhead and provisions for excess and obsolete inventory. We purchase several key components for our products from a limited number of suppliers.

Our research and development expenses consist primarily of salaries and related expenses for design engineers and other technical personnel, cost of developing prototypes, fees paid to consultants and depreciation of test and prototyping equipment. Our research and development expenses also consist of materials and overhead costs related to major product development projects. We charge all research and development expenses to operations as incurred. We believe that continued investment in research and development is critical to our future success. Accordingly, we intend to expand our internal research and development capabilities in the future to develop new products. As a result, we expect that our research and development expenses in absolute dollar amounts and as a percentage of revenue will increase significantly in future periods.

Sales and marketing expenses consist primarily of personnel costs, commissions paid to independent manufacturers' representatives, product marketing and promotion costs. We intend to substantially expand our sales and marketing operations and efforts, both domestically and internationally, in order to increase sales and market awareness of our products. In December 1999 we opened a sales office in Franklin, Massachusetts, in July 2000 we opened sales offices in Bury St. Edmunds, England and Richardson, Texas and in May 2001 we opened a sales office in Ottawa, Canada. We also intend to open an additional sales office in San Jose, California. We believe that investment in sales and marketing is critical to our success and expect these expenses to increase in the future.

General and administrative expenses consist primarily of salaries and related expenses for our administrative, finance and human resources personnel, professional fees and other corporate expenses. We expect that, in support of our operations as a public company, general and administrative expenses will continue to increase particularly due to the recent rise in our directors and officers insurance premiums as a result of the current downturn in the equity markets. General and administrative expenses are also likely to be affected in future periods by significant legal fees, stock compensation and expenses incurred in connection with pending litigation.

Results of Operations

The following table sets forth income statement data for the periods indicated as a percentage of revenue:

	Fiscal years ended September 30,		
	1999	2000	2001
Revenue	100.0%	100.0%	100.0%
Cost of revenue	57.9	49.4	65.6
Gross Profit	42.1	50.6	34.4
Operating Expenses:			
Research and development	3.1	2.5	2.1
Sales and marketing	3.8	2.9	2.6
General and administrative	3.0	3.8	3.2
Total operating expenses	9.9	9.2	7.9
Income from operations	32.2	41.4	26.5
Other income	0.3	0.3	4.2
Income before income taxes	32.5	41.7	30.7
Income taxes	13.0	17.0	12.3
Net income	19.5%	24.7%	18.4%

Fiscal years ended September 30, 2001 and 2000

Revenue—Revenue increased 41.4% to \$144.0 million in the fiscal year ended September 30, 2001 from \$101.9 million in the fiscal year ended September 30, 2000. This increase was due substantially to an increase in demand from our existing customers and, to a lesser extent, to demand from new customers and from revenue generated by newer products with higher average selling prices, such as our PTC transponder products. Sales of our products for metropolitan area networks increased to 91% of revenue for the fiscal year ended September 30, 2001 from 84.3% of revenue for the fiscal year ended September 30, 2000. We do not expect that our rate of year-to-year growth in revenue will be sustainable in future periods, as the average selling prices for existing products may decline in response to product introductions by competitors or us, or other factors, including pressure from significant customers for price concessions and reductions in spending for fiber optic equipment as a result of the economic slowdown. We believe that the increase in customer demand for our products in recent years reflects increased demand for components due to growth in the deployment of fiber optic networks worldwide.

During the fiscal year ended September 30, 2001, the telecommunications sector, and in particular the fiber optic networking sector, suffered a severe downturn. System providers are scaling back on deployment and have dramatically slowed their purchases of systems from equipment manufacturers. As a result, equipment manufacturers have also slowed purchases of components and modules from our competitors and from us. Moreover, as equipment manufacturers' sales declined, they have relied on their excess component inventories to meet reduced demand and have moved to reduce their overall component and module inventory levels. Consequently, the slowdown continues to have a negative impact on our business as we face declining sales as the result of our customers' declining business and the resulting adjustment to their inventory levels.

Cost of Revenue—Cost of revenue increased 88.1% to \$94.7 million in the fiscal year ended September 30, 2001 from \$50.3 million in the fiscal year ended September 30, 2000. Cost of revenue for the fiscal year ended September 30, 2001 includes charges related to the write down of excess inventory of \$18.1 million. Gross margin decreased to 34.4% from 50.6% during this period. The decrease in gross margin was due to a reduction in average selling prices and to the write down of excess inventory. We expect continued pricing pressure to have an unfavorable impact on gross margins in future periods as the average selling prices for existing products are expected to decline in response to product introductions by competitors and pressure from significant customers for price concessions.

Research and Development—Research and development expenses increased 17.1% to \$3.0 million in the fiscal year ended September 30, 2001 from \$2.5 million in the fiscal year ended September 30, 2000. This increase was primarily due to increased supplies and equipment resulting from an increase in engineers hired during this period. Research and development as a percentage of revenue decreased to 2.1% from 2.5% over this period because of a significant growth in revenue. We expect research and development expenses to increase as a percentage of revenue as we expand our research and development efforts.

Sales and Marketing—Sales and marketing expenses increased 29.1% to \$3.8 million in the fiscal year ended September 30, 2001 from \$2.9 million in the fiscal year ended September 30, 2000. This increase was due to increased commissions paid to independent manufacturers' representatives as a result of an increase in the sales of our high-performance subsystems and modules and an increase in advertising. Sales and marketing expenses as a percentage of revenue decreased to 2.6% from 2.9% over this period because of a significant growth in revenue. We expect that sales and marketing expenses will increase as a percentage of revenue as we expand our sales and marketing efforts.

General and Administrative—General and administrative expenses increased 17.4% to \$4.6 million in the fiscal year ended September 30, 2001 from \$3.9 million in the fiscal year ended September 30, 2000. This increase was the result of an increase in legal and other professional fees and an increase in insurance expense resulting from being a public company. General and administrative expenses are likely to be affected in future periods by significant legal fees, stock compensation and expenses incurred with pending litigation.

Income Taxes—The provision for income taxes increased 1.9% to \$17.7 million in the fiscal year ended September 30, 2001, based on an effective tax rate of 40.0%, from \$17.3 million in the fiscal year ended September 30, 2000, based on an effective tax rate of 40.8%.

Fiscal years ended September 30, 2000 and 1999

Revenue—Revenue increased 182.7% to \$101.9 million in the fiscal year ended September 30, 2000 from \$36.0 million in the fiscal year ended September 30, 1999. This increase was due substantially to an increase in demand from our existing customers and, to a lesser extent, to an increase in the percentage of our revenue represented by newer products with higher average selling prices, such as our OC-3, OC-12 and OC-48 transceiver products. Sales of our products for metropolitan area networks increased to 84.3% of revenue for the fiscal year ended September 30, 2000 from 60.5% of revenue for the fiscal year ended September 30, 1999. We believe that the increase in customer demand for our products in recent years reflects increased demand for components due to growth in the deployment of fiber optic networks worldwide.

Cost of Revenue—Cost of revenue increased 141.3% to \$50.3 million in the fiscal year ended September 30, 2000 from \$20.9 million in the fiscal year ended September 30, 1999. Gross margin increased to 50.6% from 42.1% during this period. The increase in gross margin was due to a decrease in labor costs as a percentage of revenue due to higher productivity in our new facility, lower component costs as a percentage of revenue due to higher volume purchases and a decrease in overhead as a percentage of revenue. Provisions for obsolete inventory increased during this period as we increased inventory to maintain a supply of components.

Research and Development—Research and development expenses increased 122.8% to \$2.5 million in the fiscal year ended September 30, 2000 from \$1.1 million in the fiscal year ended September 30, 1999. This increase was primarily due to increased recruiting and hiring of engineering personnel, including expenses related to employee benefits and bonuses. We also incurred development costs of \$84,000 paid to Furukawa for the automation of our product testing procedure. Research and development as a percentage of revenue decreased to 2.5% from 3.1% over this period because of a significant growth in revenue. We expect research and development expenses to increase significantly as a percentage of revenue as we expand our research and development efforts.

Sales and Marketing—Sales and marketing expenses increased 115.7% to \$3.0 million in the fiscal year ended September 30, 2000 from \$1.4 million in the fiscal year ended September 30, 1999. This increase was due

to increased employee benefits and bonuses, including commissions paid to independent manufacturers' representatives as a result of an increase in the sales of our high-performance subsystems and modules and the addition of a sales office in Franklin, Massachusetts. Sales and marketing expenses as a percentage of revenue decreased to 2.9% from 3.8% over this period because of a significant growth in revenue.

General and Administrative—General and administrative expenses increased 264.0% to \$3.9 million in the fiscal year ended September 30, 2000 from \$1.1 million in the fiscal year ended September 30, 1999. This increase was the result of an increase in employee benefits and bonuses, an increase in legal and other professional fees and an increase in reserves to provide for uncollectible receivables. We expect the dollar level of these costs to increase as a result of increased legal fees, accounting costs and other costs associated with being a public company.

Income Taxes—The provision for income taxes increased 269.0% to \$17.3 million in the fiscal year ended September 30, 2000, based on an effective tax rate of 40.8%, from \$4.7 million in the fiscal year ended September 30, 1999, based on an effective tax rate of 40.0%.

Quarterly Results

The following table sets forth some of our selected financial information for our eight most recent fiscal quarters. In the opinion of our management, this unaudited financial information has been prepared on the same basis as the audited financial information, and includes all adjustments, consisting only of normal recurring adjustments, necessary to present this information fairly when read in conjunction with our financial statements and the related notes contained elsewhere in this Report. These operating results are not necessarily indicative of results of any future period.

	Three-Month Period Ended							
	Dec. 31, 1999	Mar. 31, 2000	Jun. 30, 2000	Sept. 30, 2000	Dec. 31, 2000	Mar. 31, 2001	Jun. 30, 2001	Sept. 30, 2001
	(In thousands, except per share data)							
Revenue	\$ 14,785	\$ 25,279	\$ 28,997	\$ 32,806	\$ 41,853	\$ 47,944	\$ 39,364	\$ 14,851
Cost of revenue	7,911	12,958	13,715	15,742	21,986	26,588	26,296	19,814
Gross profit (loss)	6,874	12,321	15,282	17,064	19,867	21,356	13,068	(4,963)
Operating Expenses:								
Research and development	406	516	734	871	676	845	780	657
Sales and marketing	510	685	785	963	1,290	1,217	1,070	222
General and administrative	471	919	1,392	1,095	1,011	940	1,589	1,013
Total operating expenses	1,387	2,120	2,911	2,929	2,977	3,002	3,439	1,892
Income (loss) from operations	5,487	10,201	12,371	14,135	16,890	18,354	9,629	(6,855)
Other income	19	35	83	168	1,145	1,724	1,913	1,299
Income (loss) before income taxes	5,506	10,236	12,454	14,303	18,035	20,078	11,542	(5,556)
Income tax provision (benefit)	2,244	4,171	5,075	5,829	7,214	8,031	4,617	(2,207)
Net income (loss)	\$ 3,262	\$ 6,065	\$ 7,379	\$ 8,474	\$ 10,821	\$ 12,047	\$ 6,925	\$ (3,349)
Earnings (loss) per share:								
Basic	\$ 0.12	\$ 0.22	\$ 0.27	\$ 0.30	\$ 0.14	\$ 0.11	\$ 0.06	\$ (0.03)
Diluted	\$ 0.03	\$ 0.06	\$ 0.07	\$ 0.09	\$ 0.10	\$ 0.11	\$ 0.06	\$ (0.03)
Shares outstanding:								
Basic	27,401	27,401	27,515	27,871	78,039	107,439	107,613	107,967
Diluted	103,022	103,022	103,864	100,092	107,838	112,754	112,613	107,967
As a percentage of revenue:								
Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenue	53.5	51.3	47.3	48.0	52.5	55.5	66.8	133.4
Gross profit (loss)	46.5	48.7	52.7	52.0	47.5	44.5	33.2	(33.4)
Operating Expenses:								
Research and development	2.7	2.0	2.5	2.7	1.6	1.8	2.0	4.4
Sales and marketing	3.4	2.7	2.7	2.9	3.1	2.5	2.7	1.5
General and administrative	3.2	3.6	4.8	3.3	2.4	2.0	4.0	6.8
Total operating expenses	9.3	8.3	10.0	8.9	7.1	6.3	8.7	12.7
Income (loss) from operations	37.2	40.4	42.7	43.1	40.4	38.2	24.5	(46.1)
Other income	0.1	0.1	0.3	0.5	2.7	3.6	4.9	8.7
Income (loss) before income taxes	37.3	40.5	43.0	43.6	43.1	41.8	29.4	(37.4)
Income taxes (benefit)	15.2	16.5	17.5	17.8	17.2	16.7	11.7	(14.8)
Net income (loss)	22.1%	24.0%	25.5%	25.8%	25.9%	25.1%	17.7%	(22.6)%

The quarterly operating results reflect revenue growth through the quarters ended December 31 and March 31, 2001 and decreases in revenue for the quarters ended June 30 and September 30, 2001 as compared with their immediate prior quarter. Revenue increased 27.6% and 14.6% in the quarters ended December 31 and March 31, 2001, respectively, compared to the previous quarter due to increased sales to new and existing customers. New and existing customer purchases were primarily the result of the growth in the deployment of fiber optic networks worldwide. Revenue decreased 17.9% and 62.3% in the quarters ended June 30 and September 30, 2001, respectively, compared to the previous quarter, due to a general economic downturn, which has caused system providers to scale back on deployment fiber optic networks. This downturn has resulted in the

reduction by our customers and equipment manufacturers of their purchases of components and modules that we provide.

The quarterly operating results reflect an increase in the cost of revenue for the first two quarters and a decrease for the third and fourth quarters of fiscal year end 2001, as compared with their immediate prior quarter. Cost of revenue ranged from between 47.3% and 55.5% of revenue for the four quarters of fiscal year end 2000 and the first two quarters of fiscal year end 2001. Cost of revenue as a percent of revenue in the third and fourth quarters of fiscal year end 2001 was 66.8% and 133.4%, respectively. The increase in the third and fourth quarters of fiscal year end 2001 as a percent of revenue over the prior six quarters was the result of charges related to the write down of excess inventory of \$5.6 million and \$12.1 million, respectively. Excluding the charges related to the inventory write downs, we expect cost of revenue to continue to increase as a percentage of revenue as the average selling prices for existing products are expected to decline in response to product introductions by competitors and pressure from significant customers for price concessions.

Research and development expenses reflected in our quarterly operating results range between 1.6% and 2.7% of revenue for the four quarters of fiscal year end 2000 and the first three quarters of fiscal year end 2001. Research and development expenses in the fourth quarter ended September 30, 2001 was 4.4% of revenue. The increase in research and development expense as a percent of revenue in the fourth quarter of fiscal year end 2001 was the result of a 62.3% decrease in revenue compared to the prior quarter. Although we anticipate that the current economic environment will continue to have a negative impact on our business, we intend to expand our research and development capabilities to develop new products and strengthen our position to take advantage of the opportunities when the market recovers. As a result, we expect that our research and development expenses will increase in absolute dollar amounts and as a percentage of revenue.

Sales and marketing expenses ranged between 2.5% and 3.4% of revenue for the four quarters of fiscal year end 2000 and the first three quarters of fiscal year end 2001. Sales and marketing expenses in the fourth quarter of fiscal year end 2001 was 1.5% of revenue. The decrease in sales and marketing expenses as a percentage of revenue in the fourth quarter of fiscal year end 2001 was the result of the decrease in commissions paid to independent manufacturers' representatives. Because of our plans to expand our sales and marketing operations, we expect our sales and marketing expenses to increase in future periods.

General and administrative expenses ranged between 2.0% and 4.8% of revenue for the four quarters of fiscal year end 2000 and the first three quarters of fiscal year end 2001. General and administrative expenses in the fourth quarter of fiscal year end 2001 was 6.8% of revenue. The increase in general and administrative expenses as a percent of revenue in the fourth quarter of fiscal year end 2001 was the result of a 62.3% decrease in revenue compared to the prior quarter. We expect the dollar level of these costs to increase as a result of increased legal fees, accounting costs and other costs associated with being a public company.

Our historical operating results have varied significantly, and our future quarterly operating results are likely to continue to vary significantly from period-to-period. We believe that period-to-period comparisons of operating results should not be relied upon as an indicator of our future performance. Some of the factors which could cause our operating results to vary include fluctuations in the demand for and sales of our products, the timing of customer orders, the cancellation of existing orders, competitive factors such as introductions of new products, our ability to develop, introduce and manufacture new products in a timely manner, our ability to control expenses, the availability of components for our products, the mix of our products sold, changes in industry standards and general economic conditions in the communications and related industries.

The following table sets forth revenue attributable to each of our product groups as a percentage of revenue for the periods presented.

	Fiscal years ended September 30,		
	1999	2000	2001
Receivers	16.4%	15.2%	12.1%
Transceivers	70.0	73.4	72.3
Transmitters	11.5	9.9	10.5
Other	2.1	1.5	5.1
Revenue	100.0%	100.0%	100.0%

We believe the increase in the percentage of sales attributable to our transceiver products during the periods reflected in the table above reflects an overall increase in customer demand for products designed with higher levels of integration, such as transceivers.

Liquidity and Capital Resources

As of September 30, 2001, our primary source of liquidity was our cash and cash equivalents balance of \$62.5 million and \$76.1 million of marketable securities which consist primarily of United States treasury notes and treasury bonds. Our unused revolving line of credit totaling approximately \$1.0 million provided an additional source of liquidity. Since inception, we have financed our operations primarily with cash generated from operations. Additional financing has been generated through lines of credit and term loans. As of September 30, 2001, our working capital was \$166.4 million with a current ratio of 23:1. As of September 30, 2000, our working capital was \$34.1 million with a current ratio of 3:1. Because of our low debt balances, we believe that additional cash could be borrowed if necessary; however, cash flow from operations, cash and cash equivalents, marketable securities and existing loan facilities are expected to be sufficient to fund operations for the next 12 months.

As of September 30, 2001, we had a \$2.3 million balance outstanding under our term loan and no balance outstanding under our \$1.0 million revolving line of credit. The term loan and the revolving credit facility bear interest on amounts outstanding at various time intervals and the market rates based on our election at a per annum rate equal to either (a) the prime rate or (b) LIBOR plus 1.8%. The term loan matures July 2006, and the proceeds of the term loan were used to purchase our primary corporate and manufacturing facility in Chatsworth, California. The revolving credit facility can be used to fund working capital requirements.

The term loan and our revolving credit facility contain customary covenants, including covenants limiting indebtedness and the disposition of assets. To secure our payment and performance obligations under the term loan we have pledged all of our assets as collateral. The term loan and the revolving credit facility also require that we comply with financial covenants, which require us to maintain our tangible net worth, cash position and revenue at specified levels. Our need to comply with these covenants does not materially affect the operation of our business.

We have committed to make capital expenditures totaling \$700,000, primarily to purchase additional production equipment to continue our manufacturing capacity expansion.

During the fiscal year ended September 30, 2001, we generated cash flow from operations of \$28.1 million. The increase in cash generated by operating activities during this period was caused by increases in income and a decrease in accounts receivables, partially offset by increases in income tax benefits and other current assets and decreases accounts payable and accounts payable to related parties. For the years ended September 30, 2000 and 1999, we generated net cash flow from operations of \$12.9 million and \$2.2 million, respectively. The increase in cash generated by operations between the years ended September 30, 2000 and 1999 was caused by increased income, partially offset by increases in accounts receivable and inventory.

During the fiscal year ended September 30, 2001 and September 30, 2000, cash used in investing activities was \$90.7 million and \$11.8 million, respectively. The majority of cash used in investing activities was for the net purchase of marketable securities, the June, 2001 purchase of a 145,720 square foot building in Woodland Hills, California for \$18.8 million and capital expenditures for the purchase of property, plant and equipment to expand and automate our manufacturing facility.

On November 3, 2000, we completed an initial public offering of our Class A Common Stock. All 12,075,000 shares of Class A Common Stock registered under the Registration Statement were sold at a price of \$11.00 per share, which amount includes exercise of the underwriters' over-allotment option of 1,575,000 shares. After deducting the underwriting discounts and commissions and the offering expenses we received net proceeds from the initial public offering of approximately \$122.1 million.

Inflation

Inflation has not had a material adverse effect on our results of operations, however, our results of operations may be materially and adversely affected by inflation in the future.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are currently exposed to interest rate risk on our existing term loan and revolving credit facility and on our investment portfolio. Our variable rate debt consists of term loan borrowing of \$2.3 million. To date we have not utilized our floating rate debt under the revolving credit facility. The primary objective of our investment activities is to preserve capital. We have not used derivative financial instruments in our investment portfolio. Our cash and cash equivalents includes \$62.2 million invested in money market and other interest bearing accounts. In addition, we have \$76.1 million invested in marketable securities, which represents investments in United States treasury notes and treasury bonds.

As of September 30, 2001, our investment in marketable securities had a weighted-average time to maturity of approximately 167 days. Marketable securities represent United States treasury notes and treasury bonds with a maturity of greater than three months. These securities are classified as held to maturity because we have the intention and ability to hold the securities to maturity. Gross unrealized gains and losses on held-to-maturity marketable securities have historically not been material. Maturities on held-to-maturity marketable debt securities range from three months to two years.

If interest rates were to increase or decrease 1%, the result would be an annual increase or decrease of interest expense of approximately \$23,000 on our term loan and an annual increase or decrease of interest income of \$1.4 million on our investment portfolio. However, due to the uncertainty of the actions that would be taken and their possible effects, this analysis assumes no such action. Further, this analysis does not consider the effect of the change in the level of overall economic activity that could exist in such an environment.

Sales to foreign customers are denominated in U.S. dollars and as such we have no foreign currency fluctuation risk.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Optical Communication Products, Inc. financial statements, schedule and supplementary data, as listed under Item 14, appear in a separate section of this Report beginning on page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item is included in the Proposal One: Elections of Directors, Management, and Section 16(a) Beneficial Ownership Reporting Compliance sections of our Proxy Statement to be filed in connection with our 2002 Annual Meeting of Stockholders and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is included in the Executive Compensation and Related Information sections of the our Proxy Statement to be filed in connection with our 2002 Annual Meeting of Stockholders and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is included in the Security Ownership of Certain Beneficial Owners and Management section of our Proxy Statement to be filed in connection with the our 2002 Annual Meeting of Stockholders and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is included in the Compensation Committee Interlocks and Insider Participation and Certain Transactions sections of our Proxy Statement to be filed in connection with the our 2002 Annual Meeting of Stockholders and is incorporated herein by reference.

PART IV.

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8K

(a) Documents filed as part of this Report:

1. *Financial Statements.* The following financial statements of Optical Communication Products, Inc. are included in a separate section of this Annual Report on Form 10-K commencing on the pages referenced below:

	<u>Page</u>
Optical Communication Products Financial Statements	
Independent Auditors' Report	F-2
Balance Sheets at September 30, 2000 and 2001	F-3
Statements of Income for each of the three years in the period ended September 30, 2001	F-4
Statements of Stockholders' Equity for each of the three years in the period ended September 30, 2001	F-5
Statements of Cash Flows for each of the three years in the period ended September 30, 2001	F-6
Notes to Financial Statements	F-7

2. *Financial Statement Schedule.* The following financial statement schedule of Optical Communication Products, Inc. is included in a separate section of this Annual Report on Form 10-K commencing on the pages referenced below. All other schedules have been omitted because they are not applicable, not required, or the information is included in the financial statements or notes thereto.

Schedule II—Valuation and Qualifying Accounts For the Year Ended September 30, 1999, 2000 and 2001

<u>Description</u>	<u>Period</u>	<u>Balance at beginning of period (\$)</u>	<u>Additions charged to expense (\$)</u>	<u>Deductions- recoveries (\$)</u>	<u>Balance at end of period (\$)</u>
Allowance for Doubtful Accounts	1999	52,000	267,000	(22,000)	297,000
	2000	297,000	1,480,000	—	1,777,000
	2001	1,777,000	1,200,000	(1,821,000)	1,156,000
Warranty Reserve	1999	140,000	133,000	(20,000)	253,000
	2000	253,000	173,000	(19,000)	407,000
	2001	407,000	451,000	(120,000)	738,000

3. *Exhibits.* The following Exhibits are attached hereto and incorporated herein by reference:

<u>Number</u>	<u>Description</u>
3.1*	Amended and Restated Certificate of Incorporation
3.2*	Bylaws
4.1	See Exhibits 3.1 and 3.2 for provisions of the Certificate of Incorporation and Bylaws for the Registrant defining the rights of holders of common stock of the Registrant
4.2*	Specimen Stock Certificate
4.3 *	Standstill and Registration Rights Agreement, dated as of October 26, 2000, by and between the Registrant and The Furukawa Electric Co., Ltd.
10.1*	2000 Stock Incentive Plan
10.2*	Employee Stock Purchase Plan
10.3*	Form of Indemnification Agreement
10.5*	Employment Agreement, dated November 1, 1999, by and between the Registrant and Muoi Van Tran, as currently in effect
10.6*	Employment Agreement, dated November 1, 1999, by and between the Registrant and Mohammad Ghorbanali, as currently in effect
10.7*	Employment Agreement, dated November 1, 1999, by and between the Registrant and Susie L. Nemeti, as currently in effect
10.8*	Form of Stock Option Agreement, dated August 29, 2000, by and between the Registrant and each of Muoi Van Tran, Mohammad Ghorbanali and Susie L. Nemeti (including a schedule of substantially identical terms)
10.9*	Form of Stock Option Agreement, dated June 28, 1993, by and between the Registrant and each of Muoi Van Tran, Mohammad Ghorbanali and Susie L. Nemeti (including a schedule of substantially identical terms)
21.1*	List of Subsidiaries of the Registrant
23.1	Consent of Deloitte & Touche LLP

* This exhibit was previously filed as an exhibit to the Company's Registration Statement on Form S-1 declared effective November 2, 2000 (File No. 333-44862) under the same exhibit number, and is incorporated by reference herein.

(b) Reports on Form 8K:

None.

(c) Exhibit Index:

See Exhibit index.

(d) Financial Statement Schedule:

See Financial statement schedule set forth in (a)(2) above.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Chatsworth, State of California, on the 19th day of December, 2001.

OPTICAL COMMUNICATION PRODUCTS, INC.

By: /s/ MUOI VAN TRAN

Name: Muoi Van Tran

Title: President and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, the undersigned hereby constitute and appoint Muoi Van Tran and Susie L. Nemeti his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Report, and to file the same, with exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite or necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed by the following persons in the capacities and on the dates indicated:

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ MUOI VAN TRAN</u> Muoi Van Tran	Chairman of the Board of Directors, Chief Executive Officer and President (principal executive officer)	December 19, 2001
<u>/s/ SUSIE L. NEMETI</u> Susie L. Nemeti	Chief Financial Officer (principal financial and accounting officer)	December 20, 2001
<u>/s/ MASATO SAKAMOTO</u> Masato Sakamoto	Director	December 18, 2001
<u>/s/ KUNIHIRO MATSUBARA</u> Kunihiro Matsubara	Director	December 17, 2001
<u>/s/ YOSHIHISA OKADA</u> Yoshihisa Okada	Director	December 17, 2001
<u>/s/ STEWART D. PERSONICK</u> Stewart D. Personick	Director	December 16, 2001

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ MASAO KONOMI</u> Masao Konomi	Director	December 16, 2001
<u>/s/ JOHN LEMASTERS</u> John Lemasters	Director	December 16, 2001

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OPTICAL COMMUNICATION PRODUCTS, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Optical Communication Products, Inc.:

We have audited the accompanying balance sheets of Optical Communication Products, Inc. (the "Company") as of September 30, 2000 and 2001, and the related statements of income, stockholders' equity, and cash flows for each of the three years in the period ended September 30, 2001. Our audits also included the financial statement schedule listed in the Index at Item 14. These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2000 and 2001, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2001, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

Deloitte & Touche LLP
Los Angeles, California
November 14, 2001

OPTICAL COMMUNICATION PRODUCTS, INC.

BALANCE SHEETS

September 30, 2000 and 2001

	September 30,	
	2000	2001
	(in thousands, except share and per share amounts)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,202	\$ 62,529
Marketable securities	9,280	76,102
Accounts receivable less allowance for doubtful accounts of \$1,777 and \$1,156 in 2000 and 2001, respectively	20,031	8,004
Inventories	16,018	15,852
Deferred income taxes	1,808	9,296
Prepaid expenses and other current assets	87	2,306
Total current assets	50,426	174,089
PROPERTY, PLANT, AND EQUIPMENT, Net	8,190	30,179
OTHER ASSETS	460	
TOTAL	<u>\$59,076</u>	<u>\$204,268</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 471	\$ 471
Accounts payable	4,036	1,365
Accounts payable to related parties	5,175	1,260
Accrued bonus	3,042	1,900
Other accrued expenses	2,057	2,249
Income taxes payable	1,567	428
Total current liabilities	16,348	7,673
LONG-TERM DEBT	2,296	1,825
DEFERRED INCOME TAXES	59	57
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, no par value; 70,000,000 shares authorized, 66,000,000 shares issued and outstanding at September 30, 2000	1,650	
Common stock, no par value; 150,000,000 shares authorized; 27,871,440 shares issued and outstanding at September 30, 2000	269	
Class A common stock, \$0.001 par value; 200,000,000 shares authorized, 42,006,602 shares issued and outstanding at September 30, 2001		42
Class B common stock \$0.001 par value; 66,000,000 shares authorized, 66,000,000 shares issued and outstanding at September 30, 2001		66
Additional paid-in capital		129,707
Retained earnings	38,454	64,898
Total stockholders' equity	40,373	194,713
TOTAL	<u>\$59,076</u>	<u>\$204,268</u>

See notes to financial statements.

OPTICAL COMMUNICATION PRODUCTS, INC.

STATEMENTS OF INCOME

Years Ended September 30, 1999, 2000, and 2001

	1999	2000	2001
	(in thousands, except per share amounts)		
REVENUE	\$36,036	\$101,867	\$144,012
COST OF REVENUE	20,860	50,326	94,684
GROSS PROFIT	15,176	51,541	49,328
EXPENSES:			
Research and development	1,134	2,527	2,958
Selling and marketing	1,364	2,943	3,799
General and administrative	1,065	3,877	4,553
Total expenses	3,563	9,347	11,310
INCOME FROM OPERATIONS	11,613	42,194	38,018
OTHER INCOME (EXPENSE):			
Interest income	149	410	6,006
Interest expense	(60)	(249)	(180)
Other income	27	144	255
OTHER INCOME, Net	116	305	6,081
INCOME BEFORE INCOME TAXES	11,729	42,499	44,099
INCOME TAXES	4,693	17,319	17,655
NET INCOME	\$ 7,036	\$ 25,180	\$ 26,444
BASIC EARNINGS PER SHARE	\$ 0.26	\$ 0.91	\$ 0.26
DILUTED EARNINGS PER SHARE	\$ 0.07	\$ 0.25	\$ 0.24
BASIC SHARES OUTSTANDING	27,348	27,547	100,263
DILUTED SHARES OUTSTANDING	101,132	102,500	111,430

See notes to financial statements.

OPTICAL COMMUNICATION PRODUCTS, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY

Years Ended September 30, 1999, 2000, and 2001

	Preferred Stock		Common Stock		Additional	Retained	Total
	Shares	Amount	Shares	Amount	Paid-in Capital	Earnings	
	(in thousands, except share data)						
BALANCE, OCTOBER 1,							
1998	66,000,000	\$ 1,650	27,321,440	\$ 167	\$ —	\$ 6,238	\$ 8,055
Net income						7,036	7,036
Exercise of stock options ..			80,000	5			5
BALANCE, SEPTEMBER 30,							
1999	66,000,000	1,650	27,401,440	172		13,274	15,096
Net income						25,180	25,180
Exercise of stock options ..			470,000	97			97
BALANCE, SEPTEMBER 30,							
2000	66,000,000	1,650	27,871,440	269		38,454	40,373
Net income						26,444	26,444
Issuance of common stock from initial public offering			12,075,000	12	122,067		122,079
Conversion of preferred stock to class B common stock with a \$0.001 par value	(66,000,000)	(1,650)	66,000,000	66	1,584		
Conversion of common stock with no par value to class A common stock with \$0.001 par value . . .				(241)	241		
Issuance of common stock for exercise of stock options and employee stock purchase plan			2,060,162	2	348		350
Tax benefit from exercise of non-qualified stock options					5,467		5,467
BALANCE, SEPTEMBER 30,							
2001	—	\$ —	108,006,602	\$ 108	\$ 129,707	\$ 64,898	\$ 194,713

See notes to financial statements.

OPTICAL COMMUNICATION PRODUCTS, INC.

STATEMENTS OF CASH FLOWS

Years Ended September 30, 1999, 2000, and 2001

	<u>1999</u>	<u>2000</u>	<u>2001</u>
	(in thousands)		
OPERATING ACTIVITIES:			
Net income	\$ 7,036	\$25,180	\$ 26,444
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	305	722	1,429
Amortization of premium on marketable securities			467
Tax benefit from exercise of non-qualified stock options			5,467
Changes in operating assets and liabilities:			
Accounts receivable, net	(4,010)	(11,846)	12,027
Inventories	(4,924)	(7,710)	166
Deferred income taxes	(348)	(1,180)	(7,490)
Prepaid expense and other current assets	1	(6)	(2,219)
Other assets	(10)	(431)	460
Accounts payable	1,645	1,898	(2,671)
Accounts payable to related parties	1,318	1,991	(3,915)
Accrued bonuses	508	2,004	(1,142)
Other accrued expenses	436	932	192
Income taxes payable	279	1,313	(1,139)
Net cash provided by operating activities	<u>2,236</u>	<u>12,867</u>	<u>28,076</u>
INVESTING ACTIVITIES:			
Purchase of marketable securities	(1,508)	(12,783)	(161,789)
Maturities of marketable securities	2,000	4,000	94,500
Purchase of property, plant and equipment	(5,370)	(2,972)	(23,418)
Net cash used in investing activities	<u>(4,878)</u>	<u>(11,755)</u>	<u>(90,707)</u>
FINANCING ACTIVITIES:			
Proceeds from long-term debt	3,300		
Principal payments on long-term debt	(79)	(454)	(471)
Proceeds from Initial Public Offering			122,079
Issuance of common stock	5	97	350
Net cash provided by (used in) financing activities	<u>3,226</u>	<u>(357)</u>	<u>121,958</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	584	755	59,327
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,863</u>	<u>2,447</u>	<u>3,202</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,447</u>	<u>\$ 3,202</u>	<u>\$ 62,529</u>
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest	\$ 48	\$ 239	\$ 185
Income taxes	\$ 4,710	\$17,158	\$ 20,803

See notes to financial statements.

OPTICAL COMMUNICATION PRODUCTS, INC.

NOTES TO FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The accompanying financial statements of Optical Communication Products, Inc., a Delaware corporation (the "Company") reflect the results of its operations for the years ended September 30, 1999, 2000 and 2001. The Company's operations are primarily located in Chatsworth, California. The Company is a majority-owned subsidiary of Furukawa Electric Company, Ltd. of Japan ("Furukawa"). Furukawa beneficially owns 61.1% of the Company's capital stock at September 30, 2001, which accounts for 94.0% of the combined voting power of all of our outstanding common stock.

Operations—The Company operates in one industry segment, which includes the design and manufacture of fiber optic components. The Company's products consist of optical transmitters, receivers, transceivers and transponders, which convert electronic signals into optical signals and back to electronic signals. Many of the Company's major customers purchase through contract manufacturers. Contract manufacturers purchase on behalf of the Company's major customers and to their specifications. Revenue from the Company's two largest direct sale customers, which could be either contract manufacturers or major end-user customers, amounted to 12.7% and 10.5% for the year ended September 30, 2001. Revenue from the Company's three largest direct sale customers amounted to 23.8%, 15.3% and 12.1% for 2000. Revenue from one direct sale customer amounted to 10.8% for 1999.

2. SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents—Cash and cash equivalents include unrestricted deposits and short-term investments with an original maturity of three months or less.

Marketable Securities—Marketable securities represent United States treasury notes and treasury bonds with a maturity of greater than three months. These securities are classified as held to maturity because the Company has the intent and ability to hold the securities to maturity. Gross unrealized gains and losses on held-to-maturity marketable securities have historically not been material. Maturities on held-to-maturity marketable debt securities range from three months to two years.

Inventories—Inventories are stated at the lower of cost or net realizable value. Cost is determined using the first-in, first-out method.

Property, Plant and Equipment—Property, plant and equipment are recorded at cost. Provision for depreciation has been made based upon the estimated useful lives of the assets, which range from three to thirty-nine years, using the straight-line method.

Impairment of Long-Lived Assets—The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may no longer be recoverable. If the estimated future cash flows (undiscounted and without interest charges) from the use of an asset are less than the carrying value, a write-down would be recorded to reduce the related asset to its estimated fair value. For purposes of estimating future cash flows from impaired assets, the Company groups assets at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. There have been no impairment charges recorded by the Company.

Income Taxes—Income taxes are provided for taxes currently payable or refundable, and deferred income taxes arising from future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Deferred income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to

OPTICAL COMMUNICATION PRODUCTS, INC.
NOTES TO FINANCIAL STATEMENTS—(Continued)

be recovered or settled. Valuation allowances are established when necessary to reduce deferred income tax assets to the amounts expected to be realized.

Earnings per Share—Basic earnings per share are computed using the weighted-average number of common shares outstanding during the period. Diluted earnings per share are computed using the weighted-average number of common shares and dilutive potential common shares outstanding during the period, using the as-if-converted method for the Company's preferred shares and the treasury stock method for stock options.

Revenue Recognition—The Company recognizes revenue from product sales upon shipment, as shipments are FOB shipping point, assuming collectibility of the resulting receivable is probable. Sales returns and warranty claims are not material.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements," which summarizes views of the Commission staff in applying accounting principles generally accepted in the United States of America to revenue recognition in financial statements. The company believes that its current revenue recognition policies comply with this bulletin.

Research and Development Costs—Costs associated with the development of new products are charged to expense when incurred.

Common Stock—At September 30, 2001, the Company had two classes of common stock with a par value of \$0.001 per share. Holders of Class A common stock generally have identical rights to holders of Class B common stock, except that holders of Class A common stock are entitled to one vote per share while holders of Class B common stock are entitled to ten votes per share on matters submitted to a vote of the stockholders. Furukawa owns all 66,000,000 shares of the Company's outstanding Class B common stock.

Use of Estimates in the Preparation of the Financial Statements—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported therein. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may differ from those estimates.

Fair Value of Financial Instruments—The recorded values of marketable securities, accounts receivable, accounts payable and accrued expenses approximate their fair values based on their short-term nature. The recorded value of long-term debt and other liabilities approximate fair value, as interest is tied to market rates.

Concentration of Credit Risk—Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, placed with high credit quality institutions, and accounts receivable. The Company sells products and extends credit to customers, primarily in the United States, and periodically monitors its exposure to credit losses, and maintains allowances for anticipated losses. Accounts receivable from the Company's three largest customers amounted to \$1,153,000, \$882,000 and \$694,000 at September 30, 2001, respectively. Accounts receivable from the Company's largest customer amounted to \$3,340,000 at September 30, 2000.

Segment Reporting—Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures about Segments of an Enterprise and Related Information," establishes standards for the manner in which public companies report information about operating segments in annual and interim financial statements. SFAS No. 131 also establishes standards for related disclosures about products and services, geographic areas and major customers. The method for determining what information to report is based on the way management organizes the operating segments within a Company for making operating decisions and assessing financial performance.

OPTICAL COMMUNICATION PRODUCTS, INC.
NOTES TO FINANCIAL STATEMENTS—(Continued)

The Company's chief executive officer ("CEO") and chief financial officer ("CFO") are its chief operating decision makers. The financial information the CEO and CFO review is identical to the information presented in the accompanying financial statements. The Company has determined that it operates in one reportable segment, which includes the design and manufacture of fiber optic components. The Company does not have foreign operations.

3. INVENTORIES

Inventories consist of the following:

	September 30,	
	2000	2001
	(in thousands)	
Raw materials	\$ 6,571	\$10,865
Work-in-process	9,019	1,593
Finished goods	428	3,394
Total	<u>\$16,018</u>	<u>\$15,852</u>

During fiscal year 2001, the Company recorded write-downs of excess inventory of \$18.1 million, which includes \$12.1 million recorded in the fourth quarter.

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	September 30,		Useful Lives
	2000	2001	
	(in thousands)		
Land	\$1,345	\$ 8,074	
Buildings	3,801	15,961	39 years
Machinery and equipment	4,045	8,277	5 years
Furniture and fixtures	168	230	5 years
Computer hardware and software	368	602	3 years
	9,727	33,144	
Less accumulated depreciation	1,537	2,965	
Total	<u>\$8,190</u>	<u>\$30,179</u>	

On June 8, 2001, the Company purchased land and a 145,720 square foot building in Woodland Hills, California for the purchase price of \$18,750,000. As of September 30, 2001, the Company leased a portion of the Woodland Hills building to various other parties. Rental income from these leases was \$147,100 for the fiscal year ended September 30, 2001.

5. LONG-TERM DEBT

On July 15, 1999, the Company entered into a term loan for \$3.3 million and a revolving credit facility agreement with Manufacturer's Bank. The term loan was used to fund the purchase of the Company's land and building located in Chatsworth, California. The credit limit of the revolving credit facility is \$1.0 million. The term loan and the revolving credit facility bear interest on amounts outstanding at various time intervals based on the Company's election at a per annum rate equal to either (a) the prime rate or (b) LIBOR plus 1.80%. The term loan and the revolving credit facility are secured by all of the Company's assets. The term loan is paid in

OPTICAL COMMUNICATION PRODUCTS, INC.
NOTES TO FINANCIAL STATEMENTS—(Continued)

monthly installments and matures on July 15, 2006 and revolving credit facility expires on July 3, 2002. No amounts have been borrowed against the revolving credit facility. The term loan and the revolving credit facility also require compliance with specified financial covenants, including interest coverage ratios and indebtedness to total capital ratios and other covenants.

Long-term debt at September 30, 2000 and 2001 consists of the following:

	2000	2001
	(in thousands)	(in thousands)
Term loan due July, 2006 (4.95% at September 30, 2001)	\$2,767	\$2,296
Less current portion	471	471
Long-term debt, less current portion	<u>\$2,296</u>	<u>\$1,825</u>

Long-term debt maturities as of September 30, 2001 consist of the following:

	(in thousands)
Fiscal 2002	\$ 471
Fiscal 2003	471
Fiscal 2004	471
Fiscal 2005	471
Fiscal 2006	412
	<u>\$2,296</u>

6. EARNINGS PER SHARE

The following is a calculation of basic and diluted earnings per share ("EPS"):

	Year Ended September 30,		
	1999	2000	2001
	(in thousands, except per share data)		
Weighted average common shares outstanding	27,348	27,547	100,263
Basic EPS	<u>\$ 0.26</u>	<u>\$ 0.91</u>	<u>\$ 0.26</u>
Diluted EPS:			
Net income	\$ 7,036	\$ 25,180	\$ 26,444
Preferred stock dividends	—	—	—
Income attributable to common stockholders	<u>\$ 7,036</u>	<u>\$ 25,180</u>	<u>\$ 26,444</u>
Weighted average common shares outstanding	27,348	27,547	100,263
Convertible preferred stock	66,000	66,000	6,148
Common stock options	7,784	8,953	5,019
Diluted shares outstanding	<u>101,132</u>	<u>102,500</u>	<u>111,430</u>
Diluted EPS	<u>\$ 0.07</u>	<u>\$ 0.25</u>	<u>\$ 0.24</u>

7. COMMITMENTS AND CONTINGENCIES

Operating Leases—The Company leases certain facilities. Lease payments are made monthly. The Company's leases are renewable either monthly or annually. Rent expense for these leases for the years ended

OPTICAL COMMUNICATION PRODUCTS, INC.
NOTES TO FINANCIAL STATEMENTS—(Continued)

September 30, 1999, 2000 and 2001 was \$105,000, \$13,000 and \$38,000, respectively. The Company rented its operating facilities in Chatsworth, California prior to purchasing the land and building in fiscal year 1999.

Legal Proceedings—The Company is involved in litigation arising in the ordinary course of its business. On October 15, 1999, Methode Electronics, Inc. (“Methode”) filed a lawsuit against the Company and Infineon Technologies Corporation in the United States District Court for the Northern District of California, seeking unspecified damages, injunctive relief, attorneys’ fees and costs arising from the alleged infringement of Methode’s U.S. patents. On December 17, 1999, the Company filed an answer to the complaint denying the claims of infringement against the Company and asserting a number of defenses, including invalidity of the Methode patents. After Methode initiated the lawsuit, it assigned to Stratos Lightwave, Inc. (“Stratos”), a Methode spin-off, all of Methode’s rights, title and interest in the patent at issue. The court has added Stratos as a plaintiff to the lawsuit.

The parties have exchanged extensive “Initial Disclosures,” supplemental disclosures of information mandated by the court’s local rules and currently are engaged in formal discovery. Unless the case terminates through dispositive motions or through settlement, trial is scheduled to commence in September 2002. An unfavorable resolution of this lawsuit could have a material adverse impact on the Company.

In recent discussions among the parties’ counsels, Methode has indicated that it believes the Company’s recently released Small Form Factor Pluggable transceiver (“SFP”) infringes one or more of Methode’s patents, including the patents at issue in the current action. Methode has also indicated that it believes the Company’s Small Form Factor transceiver (“SFF”) infringes Methode patents. While Methode has filed actions against other manufacturers regarding such transceivers, Methode has not filed any additional actions against the Company, nor has Methode attempted to add SFPs, SFFs or any other transceivers as additional accused devices in the current action. In the event that Methode filed a lawsuit (or sought to amend its current lawsuit) and charged the Company with infringement through the manufacture and sale of these transceivers, an unfavorable resolution of such a lawsuit could have a material adverse impact on the Company.

8. STOCKHOLDERS’ EQUITY

Initial Public Offering—On November 3, 2000, the Company completed its initial public offering of 12,075,000 newly issued shares of Class A common stock, which included the exercise of the underwriters’ over-allotment option of 1,575,000 shares, at an offering price of \$11.00 per share. Proceeds from the offering were \$123,572,000 less underwriting discounts and commissions.

Preferred and Common Stock—On October 27, 2000, the Company reincorporated in Delaware and created two new classes of common stock with a par value of \$0.001 per share. All of the Company’s outstanding shares of common stock and convertible preferred stock automatically converted into shares of Class A and Class B common stock, respectively. Holders of Class A common stock generally have identical rights to holders of Class B common stock, except that holders of Class A common stock are entitled to one vote per share while holders of Class B common stock are entitled to ten votes per share on matter submitted to a vote of the stockholders. Furukawa owns all 66,000,000 shares of the Company’s outstanding Class B common stock.

Stock Options—In September 1992, the Company’s Board of Directors approved the 1992 Stock Option Plan for the issuance of 6,666,680 shares of the Company’s common stock to certain key employees. In August 2000, the Company’s Board of Directors approved the 2000 Stock Option/Stock Issuance Plan for the issuance of 1,000,000 shares of the Company’s common stock to certain key employees. These plans provide that options may have a term of up to 10 years, and become exercisable and generally vest in annual increments of 25 percent

OPTICAL COMMUNICATION PRODUCTS, INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)

per year over four years. In addition, key executives were granted 9,670,360 founders' stock options, which were separate from the Company's stock option plans and are fully vested. All options were granted at fair value.

On August 29, 2000, the Board of Directors approved the 2000 Stock Incentive Plan (the "2000 Plan"). Upon the effectiveness of the Company's IPO, the 1992 Stock Option Plan and the 2000 Stock Option/Stock Issuance Plan were terminated and no further options grants may be made under these plans. All options outstanding from the 1992 Stock Option Plan and the 2000 Stock Option/Stock Issuance Plan were transferred to the 2000 Plan. The 2000 Plan provides that options may have a term of up to 10 years, and become exercisable and vest in increments. The normal vesting is 25 percent per year. However, the vesting period can vary. All options were granted at fair value.

There were 7,286,177 shares available for future grant under the Company's 2000 Stock Incentive Plan at September 30, 2001. Stock option activity, including the options granted outside the plans, is as follows:

	Number of Options	Exercise Price per Option	Weighted Average Exercise Price
Options outstanding—September 30, 1998	9,088,680	0.00025 to 0.19	0.04
Options granted	760,000	0.39	0.39
Options exercised	(80,000)	0.06	0.06
Options canceled	(160,000)	0.06 to 0.19	0.1
Options outstanding—September 30, 1999	9,608,680	0.00025 to 0.39	0.07
Options granted	3,621,680	2.88 to 11.00	10.28
Options exercised	(470,000)	0.10 to 0.19	0.18
Options canceled	(570,000)	0.10 to 0.39	0.25
Options outstanding—September 30, 2000	12,190,360	0.0003 to 11.00	3.09
Options granted	2,507,535	3.20 to 17.38	14.08
Options exercised	(2,041,700)	.0003 to 2.88	0.10
Options canceled	(196,560)	2.88 to 17.38	10.26
Options outstanding—September 30, 2001	<u>12,459,635</u>	<u>.0003 to 17.38</u>	<u>5.67</u>

The following table summarizes information regarding options outstanding at September 30, 2001.

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Shares Exercisable	Weighted Average Exercise Price
\$ 0.0000—\$0.00025	5,127,480	1.7	\$ 0.0003	5,127,480	\$ 0.0003
\$ 0.0004—\$0.0700	220,000	4.0	\$ 0.0642	220,000	\$ 0.0642
\$ 0.0701—\$0.1000	315,000	5.7	\$ 0.1000	315,000	\$ 0.1000
\$ 0.1001—\$0.1900	415,000	6.8	\$ 0.1875	280,000	\$ 0.1875
\$ 0.1901—\$0.3900	487,000	7.8	\$ 0.3875	207,000	\$ 0.3875
\$ 0.3901—\$2.8800	252,500	8.9	\$ 2.8780	35,000	\$ 2.8780
\$ 2.8801—\$8.0500	149,740	9.8	\$ 7.3394	—	\$ —
\$ 8.0501—\$11.0000	4,169,460	8.9	\$10.9963	3,430,740	\$11.0000
\$11.0001—\$13.3800	73,155	9.6	\$11.4910	—	\$ —
\$13.3801—\$17.3800	1,250,300	9.3	\$17.3800	—	\$ —
	<u>12,459,635</u>	<u>5.7</u>	<u>\$ 5.6630</u>	<u>9,615,220</u>	<u>\$ 3.9540</u>

OPTICAL COMMUNICATION PRODUCTS, INC.
NOTES TO FINANCIAL STATEMENTS—(Continued)

The weighted average estimated fair value of options granted in 1999, 2000 and 2001 was \$0.39, \$1.58 and \$11.33.

The Company accounts for its stock option and employee stock purchase plans in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Had compensation cost been determined on the basis of fair value pursuant to SFAS No. 123, "Accounting for Stock-Based Compensation," net income and earnings per share would have been:

	Year Ended September 30,		
	1999	2000	2001
	(in thousands, except per share amounts)		
Net Income:			
As reported	\$7,036	\$25,180	\$26,444
Pro forma	\$7,002	\$19,714	\$16,911
Basic earnings per share			
As reported	\$ 0.26	\$ 0.91	\$ 0.26
Pro forma	\$ 0.08	\$ 0.72	\$ 0.17
Diluted earnings per share			
As reported	\$ 0.07	\$ 0.25	\$ 0.24
Pro forma	\$ 0.07	\$ 0.19	\$ 0.15

The fair value of each option grant estimated on the date of grant used to compute pro forma net income and pro forma income per share is estimated using the Black-Scholes option pricing model. The following assumptions were used in completing the model:

	September 30,		
	1999	2000	2001
Dividend yield	0%	0%	0%
Expected volatility	30%	30%	137%
Risk-free rate of return	5.84%	6.33%	5.16%
Expected life (years)	4.0	1.3	7.3

In November, 2000, the Company adopted an Employee Stock Purchase Plan and reserved 300,000 shares for issuance under this plan. Under the Stock Purchase Plan, the Company's employees may purchase shares of Common Stock at a price per share that is 85% of the lesser of the fair market value as of the beginning or the end of the offering period that begins on May 1 and November 1 of each year. At September 30, 2001 there were 18,462 shares issued under this plan.

9. PROFIT SHARING PLAN

The Company has a deferred cash and profit sharing plan covering all employees, subject to certain participation and vesting requirements. The plan provides that the Company will partially match employees contributions or provide discretionary contributions up to a certain amount. Total contributions by the Company were \$299,000, \$957,000 and \$375,000 for each of the years ended September 30, 1999, 2000 and 2001, respectively.

OPTICAL COMMUNICATION PRODUCTS, INC.
NOTES TO FINANCIAL STATEMENTS—(Continued)

10. INCOME TAXES

The components of income tax expense are as follows:

	Year Ended September 30,		
	1999	2000	2001
	(in thousands)		
Current:			
Federal	\$3,960	\$14,495	\$15,548
State	1,081	4,004	4,130
Total current	<u>5,041</u>	<u>18,499</u>	<u>19,678</u>
Effect of non-qualified stock option exercises upon income taxes currently payable			5,467
Deferred:			
Federal	(273)	(933)	(5,915)
State	(75)	(247)	(1,575)
Total deferred	<u>(348)</u>	<u>(1,180)</u>	<u>(7,490)</u>
Provision for income taxes	<u>\$4,693</u>	<u>\$17,319</u>	<u>\$17,655</u>

The components of deferred tax assets (liabilities) are as follows:

	September 30,	
	2000	2001
Allowance for doubtful accounts	\$ 780	\$ 504
Uniform capitalization and obsolete inventory	747	8,708
Accumulated depreciation	(59)	(57)
Accrued warranty	179	322
Other	102	(238)
Net deferred tax asset	<u>\$1,749</u>	<u>\$9,239</u>

A reconciliation of the Company's provision for income taxes to the U.S. federal statutory rate is as follows (in thousands):

	Year Ended September 30,					
	1999		2000		2001	
	Amount	%	Amount	%	Amount	%
Provision for income taxes at statutory rate	\$4,105	35.0%	\$14,875	35.0%	\$15,435	35.0%
State taxes, net of federal benefit	654	5.6	2,442	5.7	2,415	5.5
Other	(66)	(0.6)	2	0.1	(195)	(0.5)
	<u>\$4,693</u>	<u>40.0%</u>	<u>\$17,319</u>	<u>40.8%</u>	<u>\$17,655</u>	<u>40.0%</u>

11. RELATED PARTY TRANSACTIONS

The Company is a subsidiary of Furukawa Electric North America, which is a wholly owned subsidiary of Furukawa. The Company's related party transactions occur between itself and other Furukawa owned subsidiaries and affiliates.

OPTICAL COMMUNICATION PRODUCTS, INC.
NOTES TO FINANCIAL STATEMENTS—(Continued)

The Company sells fiber optic components and purchases raw materials from some of these entities in the regular course of business. Sales of fiber optic subsystems and modules to related parties amounted to \$611,000, \$1,126,000 and \$2,726,291 for the years ended September 30, 1999, 2000 and 2001, respectively. Purchases of raw materials from related parties amounted to \$8,416,000, \$21,778,911 and \$42,062,722 for the years ended September 30, 1999, 2000 and 2001, respectively. Accounts receivable due from related parties were \$42,000 and \$26,000 at September 30, 2000 and 2001, respectively. Accounts payable to related parties were \$5,175,000 and \$1,260,000 at September 30, 2000 and 2001, respectively. In 2000, the Company paid Furukawa \$84,000 in development costs. The Company paid \$69,000 in management fees to Furukawa for consulting and advisory services on management issues for the year ending September 30 1999. No management fees were paid in the fiscal years ended September 30, 2000 and 2001.

12. SEGMENT AND GEOGRAPHIC INFORMATION

The Company operates in one reportable segment, which includes the design and manufacture of fiber optic subsystems and modules. The following are summaries of sales to geographic areas based on the location of the entity purchasing the Company's products and sales for each of the components within the segment:

	September 30,		
	1999	2000	2001
	(in thousands)		
Revenue by Geographical Area:			
United States	\$24,439	\$ 78,866	\$ 95,582
Canada	5,371	8,418	23,942
Israel	2,951	11,003	15,290
Europe	2,567	2,770	5,272
Other	708	810	3,926
	<u>\$36,036</u>	<u>\$101,867</u>	<u>\$144,012</u>
Revenue by Component:			
Receivers	\$ 5,913	\$ 15,503	\$ 17,420
Transceivers	25,226	74,737	104,190
Transmitters	4,157	10,135	15,120
Other	740	1,492	7,282
	<u>\$36,036</u>	<u>\$101,867</u>	<u>\$144,012</u>

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CORPORATE INFORMATION

Board of Directors

Muoi Van Tran
Chairman of the Board, President
and Chief Executive Officer

Masato Sakamoto
President
Furukawa Electric North America, Inc.
Kunihiro Matsubara
Managing Director, Information Systems
Group
The Furukawa Electric Company, Ltd.

Yoshihisa Okada
Senior Manager, Opto-Electronics Unit
International Sales & Marketing Group
The Furukawa Electric Company, Ltd.

Stewart D. Personick
Chair Professor of Telecommunications
and Information Networking
Drexel University

Masao Konomi
President
Konomi, Inc.

John Lemasters
Business Consultant

Officers

Muoi Van Tran
Chairman of the Board, Chief Executive
Officer, and President

Susie L. Nemeti
Chief Financial Officer, Secretary, and
Vice President of Finance and
Administration

Mohammad Ghorbanali
Chief Operating Officer and
Vice President of Technical Operations

Corporate Offices

Optical Communication Products, Inc.
20961 Knapp Street
Chatsworth, California 91311

Legal Counsel

Brobeck Phleger & Harrison LLP
550 South Hope Street
Los Angeles, California 90071

Independent Accountants

Deloitte & Touche LLP
350 South Grand Avenue
Los Angeles, California 90071

Registrar and Transfer Agent

American Stock Transfer and Trust
Company
59 Maiden Lane
New York, New York 10038

Annual Meeting

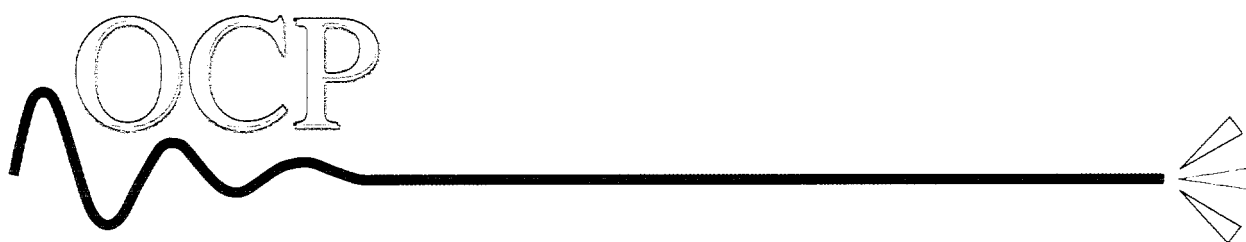
The Company's annual meeting
of stockholders will be held
Thursday, February 28, 2002 at
10:00 a.m. Pacific Time at
Optical Communication Products, Inc.
20961 Knapp Street
Chatsworth, California 91311

Other Information

If you would like additional copies of the
annual report or other investor information
direct your written requests to:

Optical Communication Products, Inc.
Investor Relations
20961 Knapp Street
Chatsworth, California 91311

OCP



The diagram consists of a horizontal line. The left end of this line is connected to a wavy line. The letters 'OCP' are positioned above the wavy line. The right end of the horizontal line is connected to a fan-like symbol, which is composed of several lines radiating from a single point.